Effect of Accounting Conservatism on Earnings Quality

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ABSTRACT

This paper examines the effect of accounting conservatism on earnings quality. The paper assumes that the level of conservatism varies according to several factors. Thus, the change in each of these factors influences the level of conservatism, which in turn affects earnings quality. The paper applies the Basu model (1997) with modification to test the relationship between accounting conservatism and earnings quality. The model is applied on a sample of listed firms in Amman Stock Exchange (ASE) over the period from 2001 to 2012. Results showed that high change in investment levels, high percentage of institutional investors and market classification increase the level of conservatism and consequently decrease the quality of earnings. These results indicate that earnings quality changes from one period to another and varies among firms according to changes in conservatism level.

Keywords: Earnings quality, Accounting conservatism, Investment, Institutional investors.

INTRODUCTION

The significance of the accounting numbers comes from its information content. Information disclosed in the financial reports is the foundations for investment decisions. Consequently, accounting information should be both reliable and relevant, which has always been the aim of standards regulators. Accounting methods and practices has been continuously developed through time to ensure the quality of disclosed information; specifically, the quality of the earnings figure. However, throughout the process of ensuring and enhancing earnings quality, some of the accounting practices *unintentionally* distort the quality of the information content. Accounting conservatism is incorporated in the various alternative accounting methods from which the firm can choose from. These methods are derived from the accounting standards, which are imposed exogenously; making reported earnings more prudent (i.e. lower). However, firms can still choose to apply less conservative methods to report higher earnings. Therefore, the level of conservatism is decided endogenously. For example, when computing the cost of inventory the company can either choose to apply the FIFO method, which produces higher earnings, or choose to apply the *more conservative* LIFO method, which produces lower earnings. Both methods are imposed from standard regulators but firms choose to apply either one.

This paper examines the quality of earnings in the context of accounting conservatism. Specifically, this paper presumes a negative interaction between conservatism and earnings quality. In other words, as the level of accounting conservatism increases the level of quality decreases. The main argument of this paper is based on the definition of accounting conservatism itself; losses even when probable are immediately recognized whereas gains when certain are deferred unless verified. As a result, earnings become a poor

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measurement of performance since it reflects all possible negative outcomes as if they actually occurred when in fact they might not. Hence, earnings lose some of its predictive power as a tool of forecasting future earnings.

Based on that, since conservatism adds *downward* biasness to earnings, it distorts the information content and thus the quality of earnings (Fan & Zhang, 2012; Chen et al. 2007). However, the level of conservatism is not constant; for example firms can choose among several accounting practices that range from liberal to conservative depending on the circumstances or the business environment (Ahmed et al. 2013). These factors set the level of conservatism that will affect the level of earnings quality. Accordingly, this paper examines the effect of three factors on conservatism, and by combining them all together, they reduce the quality of earnings. Following Ramalingegowda & Yu (2012), Fan & Zhang (2012) and Penman & Zhang (2002), in this paper we aim to examine the effect of investment, institutional investor, and market classification on earnings quality through conservatism. If these factors vary then the level of conservatism will be higher (lower) resulting in lower (higher) earnings quality.

Results of this paper show that the level of conservatism increase according to high changes in investment levels, high institutional investors, and market classification. Therefore, each one of these factors increases conservatism and accordingly the level of earnings quality decreases. The results indicate that earnings quality vary from on period to another and between different firms based on the changes of certain exogenous or endogenous factors. However, this effect is indirect through the level of conservatism. These results raise the following question. Should firms avoid conservative accounting practices in order to preserve earnings quality? The answer is no; firms may still be conservative in their reporting but with limitations. This does not suggest the abandonment of basic accounting principles such as the lower of cost or market but using a rational level of conservatism without damping the quality of earnings. For example, Heflin et al. (2014) shows that the market's earnings forecast are of better quality than reported earnings because they *exclude* certain items that are subject to conservatism. Investors demand *less conservative* earnings for purposes of better estimating current performance and predicting future earnings. The contribution of this paper is twofold; first, conservatism has a negative impact on earnings quality especially when firms apply greater conservative practices in their financial reporting. Secondly, the level of conservatism itself is not constant because it is determined by other factors.

The remainder of this paper is as follows. Section 2 provides review of relevant literature. Section 3 describes the hypothesis development. Section 4 describes the model design. Section 5 describes the sample of the study. Section 6 discusses the results and finally the conclusion.

2. Literature review

The operating characteristics of a firm play an important role in determining the level of earnings quality. Several studies found that poor performance is associated negatively with the quality of earnings. Firms not able to meet their *predetermined* performance targets or are reporting low profits, are more likely to take action (e.g. earnings management) in order to increase their earnings. As a result, these firms will produce a lower quality earnings figure (Doyle et al. 2007; Keating & Zimmerman, 1999). Additionally, firms that show growth in either sales or operating assets have lower persistent earnings (McVay et al. 2006; Penman & Zhang, 2002). Similarly, firms with high leverage undertake different income smoothing tactics to avoid debt covenants restrictions (Efendi et al. 2007; Beneish,

1999). In contrast, socially responsible firms are less likely to manipulate earnings, thus producing higher consistent earnings. Ethical concerns of these firms provide strong motivations that drive managers to issue high quality financial reports (Kim et al. 2012). Moreover, other characteristics such as size, internal controls, auditors' effectiveness and dividend policy have a positive effect on earnings quality (Jaggi et al. 2012; Skinner & Scoltes, 2011; Ashbaugh-Skaife et al. 2008; Gul &Srinidhi, 2007; Ge & McVay, 2005).

Different reporting practices affect the quality of earnings. Specifically, the classification and re-classification of special items in the financial statements have a negative impact on earnings quality (McVay, 2006). Firms complying with *principle-based* standards compared to rule-*based* standards are reporting earnings with more value relevance and more timely loss recognition (Watrin & Ullmann, 2012; Mergenthaler, 2009; Barth et al. 2008). However, higher earnings quality is conditional on both stronger standards and country-level macro settings (Houqe et al. 2012). Current standards might place restrains on reporting discretion but simultaneously places too much emphasis on fair value which is affecting earnings quality adversely. Therefore, earnings quality will improve if reporting choices evolves from practice rather than being mandated through standards setters , taking into consideration that variation in earnings quality can be also explained through changes in firms activities (Srivastava, 2014; Dichev et al. 2013).

According to Dechow et al. (2010), it is assumed that changing accounting methods from one period to another has a negative effect on the value relevance of earnings. However, the effect of accounting choices and methods on earnings quality is still not clear. But when accounting choices is affected by capital market incentives, the relationship with earnings quality becomes more transparent. For example, during initial public offering, firms choose accounting methods that will influence the market's valuation while simultaneously distorting earnings quality. Generally, capital raising activities are associated with more earnings management and less earnings persistence (Efendi et al. 2007; Morsfield & Tan, 2006). Consistent with this result, and in accordance with the opportunistic behavior hypothesis, Givoly et al. (2010) finds that private equity firms have higher earnings quality compared to their public equity counterparts. Public equity firms report higher conservative earnings due to greater litigation risk and agency cost. This result is by itself very interesting; the paper links higher conservative reporting with lower earnings quality, although the conservative principle posits that prudency and timely loss recognition is consistent with higher earnings persistence.

Other papers examined the relationship between conservatism and earnings quality. The conservatism principle denotes that accounting numbers should reflect the least optimistic outcome in the state of uncertainty. Therefore, reported earnings will not reflect an accurate measure of firms' performance, rather it will reflect a pessimistic perspective of the operating performance (Ruch &Taylor, 2015; Chen et al. 2014; Sen, 2005). Chen et al. (2007) argues that conservatism adds noise to the accounting reports, thus reducing the quality of earnings. However, this added noise more than offsets the noise added by earnings management. In other words, conservatism dampens the incentives to manipulate earnings. The paper's main result is that noise added by conservatism *eliminates* noise added by earnings management, hence having an overall positive effect on the quality of earnings. Accordingly, Fan and Zhang (2012) argues that although conservatism adds downward biasness to reported earnings, it however

lowers the incentives and ability for manipulating earnings upward. Based on that, since conservatism adds noise and downward biasness to earnings, firms will report lower quality earnings if they do not engage in earnings management practices. Thus, conservatism has negative impact on earnings quality. Penman and Zhang (2002) draw a similar conclusion. Their paper outlines a clear distinction between higher conservatism and lower earnings persistence. Specifically, the paper shows that growth in investment creates reserves that reduce current earnings. Reversing (or liquidating) these *reserves* increases earnings in future periods. Thus, earnings become inconsistent from one period to another. Moreover, a number of studies argue that as managerial ownership in the company increase, the reported financial statements become less conservative (LaFond & Rowchowdhury, 2008). Additionally, high level of institutional investors increases the level of conservatism. Agency problems increase because of greater separation between ownership and control, thus various stakeholders demand for greater conservatism (Ramalingegowda & Yu, 2012).

The previous papers have examined the factors affecting the quality of earnings. Thus, the level of earnings quality is determined by uncontrolled factors that are imposed exogenously or by controlled factors that are imposed endogenously, or by a combination of both.

3. Hypothesis development

Earnings quality has been defined by many researchers in numerous ways. There is no clear consensus on one definition. However, earnings quality can be generally defined as being a good indicator of future earnings and providing relevant information for decision making of a firm's financial performance (Dechow et al. 2010; Penman & Zhang, 2002). Measuring earnings quality is also debatable among researchers. According to Dechow et al. (2010) there are a number of measures for earnings quality that has been used in literature.[1]

Accounting conservatism aims to produce an *understated* earnings figure through anticipating any possible future losses and by maintaining a low book value of net assets. For example, conservatism will produce reserves that lower current earnings, and when reversing them, they will increase future earnings. Thus, conservative earnings are inconsistent, less persistent, less informative, and its predictive ability of future earnings is very low (Heflin et al. 2014; Sen, 2005; Penman & Zhang, 2002). Based on this argument, conservatism inserts *downward biasness* into earnings which affects quality adversely. In other words, higher conservatism will reduce earnings quality. Firms *choose* to be conservative or liberal in their accounting practices according to specific conditions and circumstances (Ahmed et al. 2013; Ramalingegowda & Yu, 2012). Therefore, in certain situations where the company needs to be more (less) conservative, the quality of earnings will decrease (increase).

The premise of this paper is that the level of earnings quality is *determined* depending on the level of conservatism, which in turn, the level of conservatism is *predetermined* by management according to specific circumstances. To put it differently, earnings quality is shaped by accounting conservatism. Based on this premise, this paper formulates *three* testable hypotheses.

Since previous studies established a negative relationship between conservatism and earnings quality (e.g. Fan & Zhang, 2012), and following Ramalingegowda & Yu (2012) which shows that high level of institutional investors increases the level of conservatism; this is because institutional investors

[1] These measures can be classified into three main categories: earnings properties, responsiveness to earnings and earnings misstatements. (Dechow et al. 2010)

possess huge influence to direct managers to apply greater conservatism practices to avoid any negative surprises in the future. Accordingly, this study will examine the effect of institutional investors on conservatism to estimate the level of earnings quality. Hence, the first testable hypothesis is formulated as follows:

H_1: *The level of institutional investors increases the level of conservatism which decreases the level of earnings quality.*

According to empirical evidence, the expectation of this study is that firms with high level of institutional investors will have higher levels of conservatism and as a result, earnings quality will be lower. In other words, the high presence of institutional investors will produce low quality earnings.

Moreover, Penman & Zhang (2002) shows that changes in firms' investments affect the level of conservatism. This interaction is assumed to determine the level of earnings quality. Therefore, the second hypothesis of this study will be:

H_2: *high amount of investments increases the level of conservatism which decreases the level of earnings quality.*

This hypothesis will test previous empirical evidence that growth in investments will result in creating *reserves* (i.e. higher conservatism), thus reducing the quality of reported earnings. Accounting conservatism reduces earnings if the levels of investments increase; the growth in investments creates *unrecorded reserves* lowering current earnings, which also can be used to boost future earnings if levels of investments decline. For example, applying accelerated depreciation methods reduces earnings (via creating reserves) when investment in fixed assets increase, but creates additional earnings if investment decreases in the future through the liquidation of these reserves.[2]

The third hypothesis will be formulated based on the institutional framework of the Amman Stock Exchange (ASE). The ASE consists of two markets; the first market lists the profitable firms. The second market lists firms that are less profitable. Any firm listed in the first market that report losses for three consecutive years, will be removed and relisted in the second market. Based on that, the level of conservatism as well as the quality of earnings will be affected. Thus, the third hypothesis is:

H_3: *The segment of the firm's market determines the level of conservatism which affects the level of earnings quality.*

Firms listed in the first market are assumed to have a well known reputation of being profitable and financially healthy; they will aim to avoid any negative surprises in their reports. Hence, they will use more conservatism practices, damping the quality of earnings.

4. Model Design

Test design for H1

As mentioned earlier, previous studies established a positive relation between level of institutional investors and conservatism on one hand and a negative relation between conservatism and earnings quality on the other hand. Based on that, test design for H1 will examine the following relations:

High institutional investor ⟶ **High** conservatism ⟶ **Low** earnings quality

And

Low institutional investor ⟶ **Low** conservatism ⟶ **High** earnings quality

Therefore, the expected result is that firms with high level of institutional investors will produce lower earnings quality, which is mainly caused by conservatism.

[2] same case in LIFO reserve liquidation; see Penman & Zhang (2002)

Test design for H2

Here the design is mainly based on Penman & Zhang (2002) with similar expectations. The change in investment levels creates reserves, due to conservatism, which reduces current earnings, and when reversing these reserves, will inflate earnings in the future. Thus, earnings become inconsistent. The tests will examine the following relations:

High change in investments ⟶ **High** conservatism ⟶ **Low** earnings quality

And

Low change in investments ⟶ **Low** conservatism ⟶ **High** earnings quality

Test design for H3

The institutional framework of the ASE serves as a perfect cut-off point because one of the important factors that affect the classification of the firms is their profitability. Firms that report profits more often are listed in the first market; if any firm reports losses for three consecutive years, it will drop to the second market. Accordingly, the following relations will be tested:

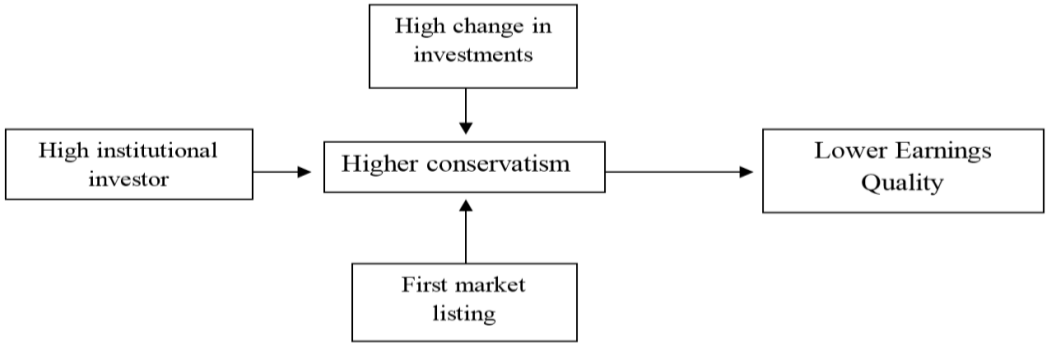
First market firms ⟶ **High** conservatism ⟶ **Low** earnings quality

And

Second market firms ⟶ **Low** conservatism ⟶ **High** earnings quality

This paper assumes that firms listed in the first market are in the spotlight and gain the attention of a large number of investors making them use higher conservatism accounting practices. Consequently, reporting earnings of low quality. Comparatively, second market firms are not expected to attract investors and will be relatively less conservative in their accounting practices.

The following diagram summarizes the above mentioned relationships.



This paper applies a modified version of the Basu Model (Basu, 1997). The model measures accounting conservatism through examining the relationship between earnings and stock returns. Since returns reflect both good and bad news about the firm's performance, it will have a stronger relationship with earnings in situations where only bad news is anticipated. Conservative earnings reflect only bad news through the anticipation of losses (e.g. bad debts), but does not anticipate potential growth (e.g. future sales).

$$E_{it} = \alpha + \beta_1 NEG_{it} + \beta_2 RET_{it} + \beta_3 (NEG * RET)_{it} + \varepsilon_{it} \qquad eq.(1)$$

Where, E_{it} is net income before taxes for firm *i* in period *t*. NEG_{it} is an indicator variable that equals 1 if stock returns is negative and 0 otherwise. RET_{it} is stock returns over a period of 12 months ending at March for firm *i* in period *t*. β_3 is the measure of accounting conservatism. However, since the main hypothesis of this paper is to examine the relation between conservatism and earnings quality, the response variable (Earnings $_{it}$) must a measure of earnings quality. In other words, (E_{it}) must indicate the level of earnings quality. Therefore, (E_{it}) in model (1) is substituted

with a measure of earnings quality (EQ_{it}).

$$EQ_{it} = \alpha + \beta_1 NEG_{it} + \beta_2 RET_{it} + \beta_3 (NEG * RET)_{it} + \varepsilon_{it} \qquad eq.\ (2)$$

The Basu model is modified to include a measure of earnings quality as the dependent variable as shown in equation (2). Earnings quality is measured as the deviation from the mean of earnings; higher values of variability in earnings indicate low earnings quality (Francis et al. 2008).

In order to test the hypothesis of this paper, Model (2) is modified as the following:

$$EQ_{it} = \alpha + \beta_1 NEG_{it} + \beta_2 RET_{it} + \beta_3 (NEG * RET)_{it} + \beta_4 (NEG * RET * INST)_{it} + \beta_5 (NEG * RET * INV)_{it} + \beta_6 (NEG * RET * MRKT)_{it} + \varepsilon_{it} \qquad eq.\ (3)$$

Where INST, INV, MRKT are indicator variables for institutional investors, change in investment and first market firms respectively. INST is measured by the ratio the sum of all shares held by institutions to the total number of shares; therefore, (*NEG*RET*INST*) is the measure of conservatism in the presence of institutional investor. INV will equal 1 if change in investments level is higher than the mean, 0 otherwise; MRKT is 1 for firms listed in the first market, 0 otherwise. Accordingly, β_4, β_5, β_6 are the measures for testing H1, H2, H3 respectively.

5. Sample and data

The sample of the study includes all listed firms in the Amman Stock Exchange (ASE), with available data from 2001 to 2012. This generates 1586 firm-year observations organized in cross-sectional manner. Variables are obtained from the financial statements of the listed firms. Firms with missing observations are excluded from the sample to ensure consistency within all firms included in the sample of the study. The sample includes all 77 firms from the industrial sector which provided complete 847 firm-year observations, and also included all 60 firms from the service sector that provided complete 737 observations. Financial firms are excluded from the sample because of inconsistency in measuring change in fixed assets. Descriptive statistics and Pearson correlation matrix of the sample are provided in Panel (1) and Panel (2) respectively in the following table.

Table 1: Sample Characteristics and Descriptive in information on Variables

Panel 1

Variable	mean	25th percentile	median	75th percentile	Std. Dev.
EQ	0.003	-0.033	0.007	0.048	0.114
RET	0.106	-0.213	-0.019	0.202	0.712
INST	0.496	0.256	0.502	0.695	0.261
INV	0.006	-0.024	-0.003	0.019	0.215

Panel 2

Pearson Correlation Matrix of Regression Variables

	EQ	RET	INV
RET	0.165		
INV	0.027*	0.002	
INST	0.015	0.013	0.012

*indicates statistical significance at the 0.1 level, based on two tailed tests. *Where*, EQ is Earnings quality measured as the deviation from mean of earnings. *RET* is stock returns over a period of 12 months ending at March. INST is measured by the ratio the sum of all shares held by institutions to the total number of shares. INV equal 1 if change in investments level is higher than the median, 0 otherwise.

6. Results

Table (2) shows the regression results of the models. The results for model 4 show that the relationship between the interaction term of high institutional investor and conservatism with earnings quality is negative (-0.122) and statistically significant at the 1% level significance level. This result is consistent with Ramalingegowda & Yu (2012). This confirms that firms with high level of institutional investors demand the use of more conservative reporting, which adversely affects the informative feature of earnings. In firms where the institutional investors have the larger percentage of ownership, they direct the investee to apply more conservative practices in their financial reports. This can be explained by the *prudent-man rule*; institutional investors build their investment decision based on the worst case scenario (i.e. state of uncertainty). These investors represent their clients in the board of directors of the investee; therefore they necessitate realizing and reporting expected losses and reporting gains only when realized. If expected losses are realized then the effect of negative surprises will be already discounted in the required rate of return they asked for. This demand of being more conservative affects the quality of earnings making it less persistent from one period to another. The earnings figure will reflect any possible losses and understates the true performance of the firm. Thus, in firms where the majority of shareholders are institutional investors they will compel or even force the use of more conservative accounting practices in financial reporting; earnings will become less informative.

Table 2: Regressions of earnings quality and the conservatism interaction terms

Dependent variable	**EQ**							
	Model 1		Model 2		Model 3		Model 4	
Independent variables	Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat
intercept	0.021	3.99***	0.021	4.01***	0.04	6.26***	0.039	6.34***
RET	0.006	1.25	0.006	1.25	0.003	0.47	0.003	0.47
NEG	-0.001	-0.00	-0.002	-0.21	-0.005	-0.57	-0.006	-0.63
NEG*RET	0.205	6.46***	0.205	6.98***	0.237	6.48***	0.352	7.98***
NEG*RET*INST					-0.135	-3.57***	-0.122	-3.22***
NEG*RET*INV	-0.097	-3.08***					-0.083	-2.13**
NEG*RET*MRKT			-0.121	-3.83***			-0.141	-3.61***
Adj R^2		0.07		0.08		0.096		0.098
F-values		21.62***		23.82***		20.41***		17.46***

***, **, * Indicate statistical significance at the 0.01, 0.05, and 0.10 levels, respectively, based on two-tailed tests. *EQ* is Earnings quality measured as the deviation from mean of earnings, *RET* is stock returns over a period of 12 months ending at March. *INST* is measured by the ratio the sum of all shares held by institutions to the total number of shares. *INV* equal 1 if change in investments level is higher than the median, 0 otherwise. *MRKT* is 1 for firms listed in the first market, 0 otherwise.

In addition, the results show that the relationship between the interaction term of change in investments and conservatism is negative (-0.083) and statistically significant at the 5% significance level. Consistent with Penman & Zhang (2002), this show that growth in fixed assets and through applying conservatism deprecation

methods creates unrecorded reserves. In future periods, if these investments decline additional earnings will be created through the liquidation of the reserves. This will cause earnings to become inconsistent from one period to another. In other words, firms with high growth in fixed assets report lower earnings because of the acceleration of deprecation. However, in periods where growth becomes lower or even in situations when fixed assets decline, earnings will boost through the liquidation of reserves. Therefore, firms that are experiencing high growth in fixed assets will most likely report earnings of lower quality.

The results for firms listed in the first market reveal a similar pattern. The interaction term is negatively significant (-0.141) at the 1% significance level. The institutional framework of the Amman Stock exchange divides the market into two segments; the First market list companies that report profits more frequently than others, while the second market lists firms that report losses more frequently. Accordingly, the first market is considered the main focus for investors since it lists profitable firms, and any negative surprises will damage the firm's reputation among investors. Therefore, these firms are reporting their financial results using more conservative methods in order to avoid any negative surprises. Based on that, the reported earnings of first market firms are less consistent and thus of lower quality. These results are similar to the presence of high institutional investor; applying prudent practices in reporting in order to incorporate and discount negative (bad news) earnings in the required rate of return. Based on these results, it can be inferred that Second market firms are reporting higher quality earnings since the pressure of being listed in the first market is absent and are using less conservative practices in their reporting.

The results above suggest that conservatism levels vary and changes according to changes in other factors; in other words, the conservatism level is not constant and varies as a reaction to specific conditions and circumstances (Ahmed et al. 2013). Therefore, the level of earnings quality is adjusted accordingly.

7. Conclusion

This paper examines the effect of accounting conservatism on earnings quality for listed firms in the ASE. The conservatism principle suggests that the least favorable outcome should be reported. Consequently, financial reports convey a *pessimistic* perspective upon the financial position and performance of a firm. The general rule has always been to recognize any possible negative outcomes and delay the recognition of positive outcomes. This principle is forced to assure the users of accounting data to make their decision in state of uncertainty. Consequently, net assets are carried in the balance sheet at a lower value, as well as earnings. The information content of accounting data will be somehow distorted; depicting the worst case scenario instead of what actually is. Hence, the quality of the accounting information (i.e. earnings) is questionable as basis to predict future performance. The main premise of this paper is based on explicit and implicit findings in literature indicating a negative effect of conservatism on earnings quality. However, the paper argues that conservatism levels vary according to certain events and specific circumstances. Respectively, firms choose between liberal or prudent accounting practices in their reporting (e.g. choosing between FIFO and LIFO). Thus, from one period to another, firms can be more (less) conservative depending on other factors. As a result, earnings quality will be higher (lower) depending on the level of conservatism.

The results of this paper show that firms become more conservative due to the high presence of institutional investors, high growth in investments and market classification. Thus these factors play a vital role

in determining the level of earnings quality. Institutional investors request the use of conservatism in order to discount for any negative surprises in order to assume the role of prudent investors. However, their request results in distorting the quality of earnings. For the same reasons, firms listed in the First market in the ASE are more conservative because of their listing status and will also produce earnings of lower quality when compared to their counterparts in the second market. On the other hand, growth in investments increases the level of conservatism not as a requirement but as a reaction to growth itself. Growth in fixed assets creates unrecorded reserves that lower earnings in the growth periods and boost earnings in non-growth (decline) periods through the liquidation of these reserves.

Consistent with Ahmed et al. (2013), these results suggest that conservatism is not constant and varies according to changes in the firm or changes in the surrounding environment. In other words, the level (e.g. high or low) of conservatism in financial reporting is a *reaction*, and depending on the gravity of this reaction, the quality level of the information content of earnings is determined.

One limitation of this study is not using other measures of conservatism such as the one developed by Givoly & Hayn (2002). Additionally, another limitation is using only one measure for earnings quality although Dechow et al. (2010) determined three other measures for earnings quality. Therefore, future studies should incorporate other measures of earnings quality as well as other measures of conservatism.

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أثر التحفظ المحاسبي على جودة الارباح

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ملخص

تهدف هذه الدراسة إلى اختبار العلاقة بين التحفظ المحاسبي وجودة الأرباح. حيث تفترض أن مستوى التحفظ المحاسبي يتغيّر بناء على وجود عدة عوامل مما يؤثر ويحدد جودة الأرباح. طورت الدراسة نموذجاً معدلاً لنموذج Basu (1997) لدراسة اثر التحفظ المحاسبي بوجود عدة عوامل على مستوى جودة الأرباح للشركات المدرجة في بورصه عمان للأوراق المالية من الفترة 2001 إلى 2012. أظهرت نتائج الدراسة أن التحفظ المحاسبي يزداد مع زيادة حجم الاستثمار في الأصول الثابتة، وزيادة نسبة المستثمر المؤسسي، وتصنيف الشركة في السوق الأول مما يؤدي إلى انخفاض مستوى جودة الإرباح. تشير هذه النتائج أن جودة الأرباح تتغيّر من فترة إلى أخرى وحسب مقدار التغيّر في التحفظ المحاسبي.

الكلمات الدالة: جودة الأرباح، التحفظ المحاسبي، الاستثمار في الأصول الثابتة، المستثمر المؤسسي.

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