

**An effect of the accounting conservatism on
the performance of Omani insurance
companies**

A field study in Omani insurance companies

**Dr. Alaa Aladdin Abdul - Wahab Hassoon
Shatt Al-Arab University College / Accounting Department
Basrah, Iraq**

**An effect of the accounting conservatism on the performance
of Omani insurance companies
A field study in Omani insurance companies**

Dr. Alaa Aladdin Abdul - Wahab Hassoon
Shatt Al-Arab University College / Accounting Department
Basrah, Iraq

Abstract

This study investigates the effect of the accounting reserve as an independent variable and the size of the company as a control variable on the financial indicators related to the performance of the Omani insurance companies represented by Return on assets (ROA), Earning per share (EPS) and the market value (MV) for the period 2012-2016. The required data have been collected from the annual reports of insurance companies listed on the Muscat Securities Market (MSM). The study sample consisted of (5) insurance companies listed in the market to determine whether these companies applied the concept of accounting conservatism. The accounting accrual basis was used, and the multiple regression analysis was used to the hypotheses test of the study.

The study Found Omani insurance companies apply the concept of conservatism, and there is a positive effect of this concept on the performance of the return on assets ROA, EPS and the market value of the MV for the period (2012-2016) according to the results mentioned. The study concluded with a number of recommendations, the most prominent of which is increasing the control of the Securities Commission on the insurance companies, the accounting profession, and adopting the appropriate procedures to encourage companies to comply with the level of accounting conservatism acceptable

Keywords: accounting conservatism. Omani Insurance Companies, Return on Assets (ROA), EPS (EPS) and Market Value (MV).

Introduction:

An effect of the accounting conservatism on the performance of Omani insurance

According to the FASB Statement of Concepts No. 2, conservatism is defined as “a prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered.”. The concept of conservatism is viewed as requiring higher verification standards for recognizing good news than for recognizing bad news (Basu 1997; Watts 2003; Nichols, Whalen, and Wieland, 2009), i.e., asymmetric timeliness of recognition of earnings decreases versus earnings increases in accounting income. Timely recognition of earnings decreases and delays in recognizing earnings increases will directly impact profitability and capital ratios, which, in turn, could determine the intensity of monitoring by regulators because these measures are used by regulators to identify troubled banks. Watts (2003) provides four explanations for the existence of accounting conservatism, which offer significant benefits to the users of financial information. These benefits include improving contracting efficiency, minimizing firms’ litigation and tax costs, and enabling accounting and industry regulators to minimize economic instability and avoid criticism. Under a contracting explanation, accounting conservatism is an

efficient contracting mechanism for reducing agency costs. The use of conservative accounting numbers in contracts among different parties for the firm reduces information asymmetries and moral hazard problems derived from agency conflicts. Conservatism imposes a higher standard of verification to recognize good news in earnings rather than bad news, which in turn reduces the managers’ opportunity to overstate earnings. These restrictions reduce the probability of managerial expropriation of shareholders’ resources or the excessive distribution of resources to shareholders at the expense of debt holders (Khan and Watts, 2009). Previous empirical studies support these arguments. For instance, Ahmed, Morton, and Schaefer (2002) document that accounting conservatism plays an important role in mitigating the bondholder shareholder conflicts over dividend policy by reducing the risk to bondholders that the firm will pay excessive dividends to shareholders. The litigation hypothesis claims that firms use conservative reporting to avoid or minimize litigation risks. Firms, and their auditors, are more likely to be sued for overstatements of earnings and net assets than for understatements. Thus, as

An effect of the accounting conservatism on the performance of Omani insurance

conservatism understates a firm's net assets, the firm's litigation risk is reduced. Prior studies document that litigation risks are associated with more conservative accounting (Zhou and Lobo, 2006). Basu 1997 presents some of the strongest evidence of this association by showing that in periods of high auditor litigation, firms report more conservatively. The converse was also found to be true. The results suggest that periods of higher litigation risk generally exhibit greater accounting conservatism, as firms pre-emptively attempt to reduce future litigation costs. Furthermore, Watts (2003) contends that the links between taxation and reporting can generate conservative reporting. Generally, firms report lower financial earnings to reduce their income tax liabilities. When there is a high correlation between book and tax earnings, a firm will be more likely to report conservative financial earnings to reduce tax obligations. Finally, Watts (2003) notes that conservative accounting enables standard setters and regulators to minimize economic instability and avoid criticism. These bodies are likely to face more criticism if firms overstate their net assets than if they understate them.

An accounting conservatism is a qualitative characteristic of an accounting report. William Beaver and Stephen Ryan, 2005 define conservatism and present its two forms. Conditional conservatism (ex post conservatism or news dependent) - means that under favorable circumstances book values are not written up (conservative behavior), but under unfavorable circumstances book values are written down. Unconditional conservatism (or ex ante conservatism, or news independent) - means that the accounting process determined at the inception of assets and liabilities yield expected unrecorded goodwill. A firms use the concept of an accounting conservatism when preparing their financial statements to meet uncertain values. It is preferable that a firm should be the understatement of the asset, revenue, profit and intentional excesses of the expenditures and obligations. This practice led to the expectation of losses and nonprofits - Which affects the accounting information and reflection on it to take investments decisions. The results of accounting research showed the importance of an accounting conservatism as one of the accounting restrictions that have an important impact in the

preparation of financial reports, especially in cases where the firm is faced with the choice between a set of alternatives. The increase and spread of this phenomenon in financial reports is considered one of the most controversial issues in contemporary accounting, which formed the focus of much attention in accounting thought, and the practice has been criticized for inconsistency in the event of a deliberate reduction in the value of the assets, which leads to increased income. In a case of the sale of these assets, the policy of the company changes in terms of recording or not recording the expected losses because expectations are constantly adjusted, and it is difficult for investors to know. This concept is in contradiction with the accounting principles and is applied when it is opposed to these principles. It also contradicts certain qualitative such as neutrality, fair representation, and relevance especially after the emergence of fair value concepts. And with all those criticisms managers and owners tended to inclined to optimistic, which reflects to an increase in asset values and income, so it represents a treatment accounting to meet those optimistic to helps and protect shareholders, creditors and other stakeholders

who need to know the financial position of the company presented in the financial statements. Hence the application of this concept has consistently proved to firms under uncertainty conditions is reasonable, useful and affects the performance of the financial companies in terms of (ROA), (EPS) and (MV).

Objectives of the study:

This study contributes to the enhancement of accounting studies by clarifying the effect of the accounting conservatism on the performance of Omani insurance companies. In addition, it is an important accounting constraint that has a significant impact on financial reporting. Many countries have been interested in its study. These countries have a variety of economic, legislative, legal and other environments. Therefore, this study represents a scientific and practical addition to the accounting thinking through the application of the restrictions of the accounting conservatism on the financial reports issued by the Omani insurance companies.

Importance of the study:

The importance of this study is determined by the following points:

- a. Assist those who set accounting standards to determine the effects of accounting estimates and

An effect of the accounting conservatism on the performance of Omani insurance

personal judgments taken by the management to protect users of financial statements, and reduce the use by some departments of the flexibility available to them in accounting standards in manage their profits.

B. Provide useful information to investors about the levels of reserve to ensure reliability, objectivity and credibility in financial statements, which is an important information base for decision makers inside and outside of the company.

C. Determine whether there are any effects of an accounting conservatism on financial indicators that help management improve performance and enhance its competitive advantage by confirming confidence in published financial statements.

D. The contribution of measurement of the accounting conservatism in the disclosure of the efficiency of the Muscat Securities Market, which some studies have indicated that the issuance of financial statements with conservatisms evidence of the realization of the market efficiency hypothesis that the share price reflects all the information available in a timely manner.

e. Contributes to providing an added vision to the insurance companies facing different types of

risks related to the nature of the insurance services provided to the policy holders. Therefore, the existence of the special accounting treatment may lead to a difference in the level of the accounting conservatism and its impact on the financial performance of these companies, in addition to provide information to decision making regulations to develop and support transparency in financial disclosure.

Theoretical framework and literature review:

According to the FASB Statement of Concepts No. 2, conservatism is defined as “a prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered.”.

It is one of the most important accounting concepts that affect disclosure and accounting measurement. Resulting from management practices. The accounting measurement is reflected in the values of the financial statements, which including measurement of income, assets and profits less than their value, while the values associated with expenses and obligations are measured more than their value. The application of the accounting concept has received special attention by the external auditors who recognize the losses Expected

An effect of the accounting conservatism on the performance of Omani insurance

without expected profits, which means recognizing expenses and delaying revenues and profits. Although the Financial Concepts Statement (ASB2) of the (FASB) does not favor the use of conservative applications when the net asset and income reduction is deliberate, the application conservative is to reduce and not increase current income and net assets, points out in the conservatism that management tends to be more pessimistic than optimistic in the preparation of its financial reports. For example, Accounting Research Bulletin (ARB) 2 states that, "Conservatism in the balance sheet is of dubious value if attained at the expense of conservatism in the income statement". To elaborate, if ending inventory is valued using the lower of cost or market rule, the assets are understated in the balance sheet in the first period, but in the next period this leads to an increase of profits in the income statement, all else equal. Another example is when a company uses an accelerated method of depreciation. Here net asset values are understated initially but there is an increase in profit after the first few years because the depreciation is accelerated in the first few years (which the ARB refers to as an adverse consequence on the

income statement, which is far more important

Basu, 1997 argues definition of accounting conservatism, respectively "earnings reflecting bad news more quickly than good news". To illustrate his argumentation, he gives the example of changes in estimating amortization period of a fixed asset. In his example, he considers both increase and decrease of the amortization period of the asset and the effects of these changes on net asset and on results. In addition, they demonstrate that in the recent decades, conservatism level has increased because the sensitivity of earnings to concurrent positive returns has decreased relative to the sensitivity of earnings to concurrent negative returns.

Roychowdhury and Watts, 2004 examine the links between several forms of measurement of accounting conservatism. Regarding association between asymmetric timeliness of earnings and market-to book ratio, the following issues were found: especially for firms experiencing negative returns, this association.

Ball and Shivakumar [2005] identify two distinct concepts of conservatism that mitigate manager-debtholders agency conflicts: (a) imposing a downward bias on reported net

An effect of the accounting conservatism on the performance of Omani insurance

worth to alleviate managers' tendency to bias net worth upwards; and (b) committing managers to recognizing bad news in a timely manner. These two aspects of conservatism constrain managers' incentives to transfer wealth to shareholders to the detriment of debtholders³ and provide timely information to debtholders that allows transfer of control rights to them when firms' financial condition deteriorates and covenants are violated.

Givoly, et al. 2006 examines the extent to which the measure developed by Basu, 1997 - the differential timeliness, evaluates accounting conservatism. The authors mention some factors that may influence this measure: application of conservative accounting methods underestimate asset valuation application of the lower-of-cost-or-market convention. The measure developed by Basu is invalidated not only highlights the possible causes of measurement error, considering that dependence on a single measure for assessing the accounting conservatism is not recommended.

Chan's 2006 study aimed to see how the quality of profit focusing on accounting accruals affects all listed companies on the London Stock Exchange except for financial companies on future

market returns, which are useful for stock valuation. The study found that accounting accruals have a negative impact on future equity returns. There is unrelated between Optional information and sales growth and the only component that explains future returns.

study of Ema Masca 2006 suggest a preparation of an analytical paper looking the determinants of accounting conservatism after the adoption of the International Financial Reporting Standards (IFRS) by companies listed in Markets Europe. Stephen Ryan's. Researchers in recent year were compared have moved from determinants of the search in the accounting conservatism to the determinants imposed on the general conditions of the appearance in the accounting conservatism.

Richard Dietrich, Karl Muller and Edward Riedl, 2007 oppose to the Basu's research the argument that the test statistics is biased, which does not allow measurement of conservatism by this method. These biases arise from the resulting distributional properties of the truncated samples and the sample formation procedure. The authors emphasize that not the asymmetric timeliness but the research design determines erroneous results.

An effect of the accounting conservatism on the performance of Omani insurance

Stephen G. Ryan, 2006 taking into account the reasoning of Dietrich, Muller and Riedl,. Giorgio Gotti, 2007 continues Basu's research and combats Dietrich, Muller and Riedl, 2007; introduces a new measure of conditional conservatism by means of which he explains the accounting conservatism They sees bad news about future earnings as quickly as good news in the firms which have high debt-to-asset ratio; directors rewarding based on accounting performance of the firm determines an aggressive accounting behavior - recognizing expected gains in annual earnings faster than losses; a more conditional conservative behavior is rediscovered in firms that received an unexplained unqualified auditor opinion.

In the view of Ball R, Kothari S 2007, that the issuance of financial Statements with the accounting conservatism on time represents the essential of transparency in financial reporting. The role of an accounting conservatism is also shown by management options in delaying recognition of gains and taking potential losses into account, not reporting expected profits, overstatement of expenses and provision for depreciation of assets in order to reflect the Company's revenues in a

conservative manner and in accordance with GAAP.

As Ball R, et al. 2008, that the accounting conservatism includes the application of standards that give priority to recognition of bad results such as losses rather than good results such as profits. They found that income or business results are affected by bad news faster than good results. Aflatooni 2009 study examined whether the stock market response to profit management practices and income smoothing. The study used Zarowin- Tucker model to test the income stream. There was a significant positive effect on the income of stocks.

Empirically, Zhang [2008] finds that conservatism is associated with lower initial interest rates and higher likelihood of covenant violations following large negative shocks, which she interprets as suggestive of the contractual benefits of conservatism to both lenders and borrowers. Subsequent work also finds empirical support for the role of conservatism in mitigating firms' and debtholders' conflicts in private debt markets

Latridis G 2011 study found that the company's commitment to a conditional conservative and unconditional accounting conservative concept positively affects a loan contract at a lower

An effect of the accounting conservatism on the performance of Omani insurance

interest rate as a result of conservative financial reporting. The study also showed that a conditional conservatism such as inventory valuation using cost or net realizable value can be used by management to achieve its interests. It also revealed that as a result of the accounting conservatism, the income of British companies is not identical. Study of Hanan M 2012 showed that Jordanian banks are more conservative in terms of accounting concept compared companies operating in another sector. Small companies are more conservative in their accounting policies compared to large companies, while there is no impact on the debt factor at the accounting conservative.

Jimmy Lee 2012 study examined whether the accounting conservative relates to the financial flexibility of firms and their access to capital, and whether it facilitates the and whether it facilitates monitoring and control by financiers. They willing to expand funding and increase the company's access to capital. However, the accounting conservatism leads to reduction in the regular Net wealth and weakness in a strong balance sheet of the company, and it was also possible to reduce the company's access to capital. The

results of the study showed that companies with the largest accounting conservative reveal less flexibility in managing their liquidity, or issuing share decisions, and the sensitivity of their investments to financing constraints and payment policies. The study suggests that even though the company has lower costs of indebtedness by disclosing conservatism, it has to have some flexibility to obtain capital, which affects financial decisions .

Qintao Fan and Xiao-Jun Zhang, 2012 study showed that an accounting conservatism may serve as a mechanism for balancing between the interest of managers and shareholders, and that the impact of asymmetric information is limited. The researchers also found no relationship between the accounting conservatism and the structure of funding in the public sector companies. In addition, there is no evidence that companies controlled by the private sector are more conservative in their reports than companies controlled by the public sector

Gigler and Hemmer 2013 develop a theory of the relation between biases in financial reporting and managers' incentives to issue timely voluntary disclosures. We find that firms with relatively

An effect of the accounting conservatism on the performance of Omani insurance

more conservative accounting are less likely to make timely voluntary disclosures than firms with less conservative accounting. Therefore, price is more timely in reflecting the news of firms with less conservative accounting. their theory provides an alternative explanation for the empirical findings and cautions against interpreting them as evidence that accounting is conservative. Finally, they identify means of empirically distinguishing between the alternative explanations.

Wang RZ 2013 study showed that when the level of the conservatism is increased, the operational risk is reduced in the unit. The conservatism can be used as an investment risk analysis tool and helps to prepare more balanced financial reports

Bafghi 2014 study aimed to test the impact of profit management practice on the Jones corporate model in the liquidity of investment portfolios and equities excluding financial sector companies. The negative significant of the practice of profit management on the liquidity of shares and increase in the cost of trading

The Najjar J 2014 study showed a natural tendency in the financial sector to overestimate allowances and reserves to accumulate secret reserves in this sector that

increase the level of the conservatism.

Jomely A 2014 study showed the industry's commitment to the acceptable level of conservatism and compliance with an average level of conservatism reduces the risk of financial failure

Scholarone 2014 discussed the relationship of academic thought to accounting conservatism, the concern of standard setters and the discussion of conservatism types. The main conclusion was that the value of the accounting conservatism was likely to vary by country and company. It is not safe to assume neutrality or conservatism in financial reporting that it will be in the best form of accounting and for all types of companies and national contexts. Accounting standards must be formulated in such a way as to allow companies too explicitly and pre-qualify accounting applications for conditional conservatism or to neutralize accounting applications in accordance with the financial reporting requirements of the company. The risk of preparing financial reports that oblige all companies to adopt accounting neutrality or accounting conservatism is more harmful to their usefulness. In addition, the expansion of the conceptual framework to the recognition of

An effect of the accounting conservatism on the performance of Omani insurance

the importance of moral hazard and ill-choice is a danger to the economic system.

John Molenaar 2015 provided a methodology for studying the relationship between accounting conservatism and profit management in the banks. The results show that US bank managers use their discretionary power in loan loss provisions (large allowances to banks) to manage profits and the effect of a conditional conservatism in the direction required for management. Previous studies have tested the relationship between accounting and profit management. It was concluded that the accounting conservatism reflects the profits due to the accrual element rather than the cash flow component and from these studies, these include Watts and Roy Chowdhury 2007 the accrual basis is often used.

Lara, Osma, and Penalva 2015 Argue that conservatism improves investment efficiency. they predict that it resolves debt- equity conflicts, facilitating a firm's access to debt financing and limiting underinvestment. Their empirical results confirm these predictions. They found that more conservatism firms invest more and issue more debt in settings prone to underinvestment and that these effects are more

pronounced in firms characterized by greater information asymmetries. They also found that conservatism is associated with reduced overinvestment, even for opaque investments such as research and development

Study of Mere Badia et al. 2017 aimed to provide evidence that the holding companies that have the highest proportion of financial instruments have a greater conditional conservatism and this conservatism increases with the increasing of the mechanism of institutional governance, which increases the strength and continuity of the incentives of the company to submit a conservative report and this conservatism decreases with the incentives management in the profits of the company .

Nature of the Problem and hypotheses development:

There is widespread controversy in the scientific and professional circles, regional and international about the impact of the accounting conservatism on the performance of companies. On the one hand, many studies theoretical and practical research have concluded that the accounting conservatism restricts the opportunistic behavior of managers and improves the performance of the organization. On the other hand, many studies have criticized the

An effect of the accounting conservatism on the performance of Omani insurance

accounting conservatism for the potential distortion of information and its negative significant on the allocation of resources, as well as increasing the harm to the performance of the Organization, hence it's requires studying the practice of accounting in the insurance companies and its impact on financial indicators addressing the return on assets (ROA), Earning per share (EPS) and market Value (MV) .

Problem study can be summarized as follows.

1. Are Omani insurance companies applying an acceptable accounting concept consistent with IFRS?

2. Does an accounting conservatism affect both the return on assets, earnings per share, and the market value of shares in Omani insurance companies?

Hypotheses study:

Based on the study problem, the main hypothesis of the study was formulated as follows:

H01: There is a significant relationship between the concept of accounting conservatism and published financial reports of Omani insurance companies for the period 2012-2016 and derived from this hypothesis the following sub-assumptions:

Ho2- A: There is a significant relationship between the concept

of accounting and return on assets for the period 2012-2016.

B -: There is a significant relationship between the concept of the accounting conservatism and the return on earnings per share (EPS) for the period 2012-2016.

C: There is a significant relationship between the concepts of the accounting Conservatism and the market value of the share for the period 2012-2016

Research Methodology:

This section includes an analytical description of the methodology for presenting stages and steps to achieve the study objectives. It began with the study sample, data collection and information resources, and then the statistical methods used to analyze these data.

Sample

This study was conducted on insurance companies listed on the Muscat Securities Market. The Omani market includes until the end of 2016, many branches of foreign companies in addition to SAOG companies. These companies do not present their financial statements on the Muscat Securities Market. However, there are 5 listed insurance companies as a sample for the availability of financial reports and required data relating to the study period from 2012 to 2016.

An effect of the accounting conservatism on the performance of Omani insurance

In order to test the hypotheses of the study, various methods were used, including the non-linear methods and the T-test (binomial). The independent variable of the conservatism, return on assets, return on equity (EPS), and market value the multiple linear regressions and the ordinary smaller squares were also used. In order to test the error of heterogeneity of the random variation (the homogeneity test), the normal lower squares method was applied in linear regression models using the White test. The value of F and all the values of the study hypotheses are greater than 5% indicates that there is no homogenization data for the remaining squares and all regression models. The multiple linear regression models were then applied to test the hypotheses of the study measuring

the descriptive statistics of the study variables

Table (1) shows the measurement of the variable study. The descriptive statistics of the variables of the study sample are shown in Table (2)

Statistical results

This part of the study represents the hypothesis test. The first hypothesis was tested using the binomial test because the time series data associated with the accounting conservatism with the variables are imaginary and do not distribute a normal allocation First hypothesis test H01: Omani insurance companies apply the concept of accounting conservatism in the preparation of published financial reports for 2012-2016

Schedule 1: measurement of study variables

Independent Variable	study variables	Measurement Method	Reference
	Accounting conservatism	(net income- Operating Net cash flow) / Net income	Givoly
Control Variable	Company Size	Natural logarithm of total assets	Gill Bamber
Dependent variable	Return on asset	Net Income / Total Assets	Mazloom
	Earnings per Share	Net Income / total No of Issuing Ordinary Shares	
		Price Share at 31/12	Mazloom

An effect of the accounting conservatism on the performance of Omani insurance

Table 2: Descriptive Statistics of the Study Variables

	Mean	Standard Deviation	Maximum Value	Minimum Value
Return on Assets	4.19	9.15	14.99	(5.34)
Earnings per share	0.04	1.40	0.110	(0.05)
Market Value	0.205	10.884	0.500	0.100
Company Size	74270094	1.425	165063666	9723262

Par value of ordinary shares issued by Omani insurance companies is RO 0.10 *

The assumptions of the study were subjected to a two-tail test. The average level of the conservatism for the sample of previous years was calculated according to the total accrual basis. When the receivables of the values are negative or less than one (part) during the time period, it indicates that the cash flows are more than income. This means that conservative accounting policies have reduced the company's income. While cash flows are still ongoing as a result of good unrecognized income. Then dividing it into conservative financial reports given the number 1, but if the proportion of the conservatism level more than one (not part) it means that the accounting conservatism policies

are low, then divided into unsecured financial reports are given the number 0.

Table 3 shows that Omani insurance companies have a level of accounting conservative in the preparation of financial reports for the study period. Therefore, a number of conservatism clauses are 86% for 82 items. While the ratio of non-conservative items is 14% for 13 items and the level of significant (Sig = 0.00). Therefore, the assumption that: Omani insurance companies apply the concept of accounting conservatism in their published financial reports for the period. 2012-2016

Results of the first hypothesis test were as (Table 3) result of the accounting conservatism

An effect of the accounting conservatism on the performance of Omani insurance

Groups	classification	No of items	Item %	significant
Conservative items	1	82	86%	0.00
Non conservative items	0	13	14%	
Total		95	100%	

Table 4: Effect of the accounting conservatism on the financial performance, (Return on assets, Earnings per share (EPS) and Market value of the share) shows the results of the linear regression test in terms for the effect of the independent variables of accounting conservatism and the size of the company in clarifying the dependent variable (return on assets). The interpretation factor is 8% R², i.e., 8% of the variance of the return on assets is interpreted differently Accounting conservatism and size of the company. F value was 4.644 at a significant level (F = 0.052). This indicates the acceptance of the first regression model and the interpretation factor (R²) at the significance level ($\alpha \geq 0.05$.)

An effect of the regression coefficient related to the accounting conservatism on the return on assets in the first regression model was ($\beta = 0.029$)

and (R² = 2.311) at Sign level (t) = 0.056), and a level ($\alpha \geq 0.05$), this indicates an increase in the accounting conservatism in Omani insurance companies. The first hypothesis, which provides for a significant relationship between the concept of the accounting conservatism and the published financial statements for the period 2012-2016, is accepted. The results of this study concur with the Giovelly study 2000 in terms of the tendency of the nature of the financial sector to be more conservative in its accounting policy and overstatement of reserves and allowances (unexpired risk reserve, outstanding losses reserve and contingency reserve) more over some of insurance companies formatting Incurred but not recorded reserve claims, which increases the level of the accounting conservatism

ROAI T =AI T +B ACI T +BI INSZ I,T +E I T		
ROA		
R – squared	0.08	
Adjusted R – squared	0.06	
F- Statistics	F- Ratio	4.644

An effect of the accounting conservatism on the performance of Omani insurance

	Prob. (F)	0.052
Constant	Coefficient	(1.169)
	T- test	(1.082)
	Sig(t)	0.414
Acc: Conservatism	Coefficient (Beta)	0.029
	T- test	2.311
	Sig(t)	0.056
In SZ _{1,t} :natural Logarithm of total asset	Coefficient (Beta	0.010
	T- test	1.080
	Sig(t)	0.416

The multiple regression equation can be redrafted in the effect of the accounting conservatism, and the size of the company on the return on assets is as follows:

$$ROA = -0.169 + 0.029ACit + 0.010\ln SZ_{it} + \varepsilon_{it}$$

Table (5) showed the significant effect of the regression for the independent variables, accounting conservative and the size of the company to explain the dependent variable EPS. Where the value of R² was 9.9%, meaning that approximately 10% variance of earnings per share can be explained in both the accounting conservatism and the size of the company. F Value 5.088 at significant level 0.009 indicating the acceptance of the second regression model and the R² interpretation factor at a significance level $\alpha \geq 0.05$

An effect of regression coefficient which is related to the accounting

conservatism on the return of the stock in the second regression model ($\beta = 0.127$) and R² = 2.097 at f sig (Sig = 0.042) at level of 0.05. The increase in the accounting conservatism in the Omani insurance companies have a positive significant on the improvement of earnings per share (EPS), thus accepting the second sub-hypothesis which states

There is a significant correlation between the accounting conservatism and earnings per share (EPS) in the Omani insurance companies for the period 2012-201-201. This result is in line with the results of the Stephen and Chan study in terms of the positive effect of the accounting conservatism on the shareholders' expectations regarding the returns of the shares

An effect of the accounting conservatism on the performance of Omani insurance

EPS _{it} = A +B ACI _{it} +B ₁ INSZ _{it} +E _{it}		
EPS _{it}		
R – squared	0.099	
Adjusted R – squared	0.077	
F- Statistics	F- Ratio	5.088
	Prob. (F)	0.009
Constant	Coefficient	
	T- test	
	Sig(t)	
Acc: Conservatism	Coefficient (Beta)	
	T- test	
	Sig(t)	

The multiple regression equation can also be reformulated so that the effect of the accounting conservatism and the size of the company on the earnings per share can be demonstrated as follows:

$$EPS_{it} = 0.013 + 0.127ACI_{it} + 0.106INSZ_{it} + \epsilon_{it}$$

Table (6) shows the significant statistical effect in the third regression model on the independent variables. The accounting value of the variable in the interpretation of the dependent variable is $R^2 = 11.5$, i.e., 11.5% of the difference in the value of the share value can be explained by the variation in the conservatism ($S = 0.055$), indicating that the third regression model was accepted and that the factor of interpretation (R^2) was at the level $\alpha \geq 0.05$

An effect of regression coefficient of the accounting reservation on

the market value of the share of the third regression model ($\beta = 0.574$) and ($R^2 = 2.234$) at ($Sig\ t = 0.032$) and level $\alpha \geq 0.05$. This means that there is a positive effect of the accounting conservatism on the market value of the stock. Increasing in the accounting reserve will positively affect the improvement in the value of the market share in the Omani insurance companies. Therefore, the premise that the impact of the accounting conservatism on the market value of shares in Omani insurance companies for the period 2012-2016 will be accepted.

The multiple regression equation can also be formulated so as to demonstrate the effect of the accounting reservation and the size of the company on the market value of the stock as follows

$$Mc_{i,t} = -5.778 + 0.575 ACI_{i,t} + 0.401 INSZ_{i,t} + \epsilon_{i,t}$$

An effect of the accounting conservatism on the performance of Omani insurance

Table 4 shows the normal logarithm regression coefficient of the company size (control variable) and the natural logarithm measures the positive effect of the total assets at a

level $\alpha \geq 0.05$ of financial performance indicators (ROA, EPS and market value of the share) of the Insurance companies for the period 2012-2016.

MCI,T= A +B ACI T +BI INSZ I,T +E IT C-		
$Mc_{i,t}$		
R – squared	0.115	
Adjusted R – squared	0.96	
F- Statistics	F- Ratio	6.056
	Prob. (F)	0.005
Constant	Coefficient	(5.778)
	T- test	(1.827)
	Sig(t)	0.077
Acc: Conservatism	Coefficient (Beta)	0.575
	T- test	2.234
	Sig(t)	0.032
lnSZ _{i,t} : Logarithm of total asset		
	Coefficient (Beta)	0.401
	T- test	2.136
	Sig(t)	0.040

Conclusions and recommendations:

The study found the following results:

1. There is a positive effect of the concept of accounting reservation on the financial performance of Omani insurance companies
2. An accounting conservatism reduces the authorized income of the company while the cash flows continue to have good unrecognized profits, resulting in income continuity rather than continuity of receivables in subsequent years

3. The quality of profits shows the real revenues of the company and that the prediction of real income has a positive impact on the financial performance of companies

4. A reflection of the effectiveness of the positive performance of the company to investors and shareholders in the financial market, leading to a rise in the value of the stock in the market and the strong financial position of the company, which is an important factor in attracting new investors, and to increase the company's ability to maintain

An effect of the accounting conservatism on the performance of Omani insurance

shareholders on the one hand and increase investor confidence in the company on the other.

The study recommends that:

1. Increasing the supervision of the organizing committees of the accounting profession and supervisors to regulate the work of insurance companies in the Sultanate of Oman in order to encourage companies to comply with an acceptable level of accounting conservatism.
2. Increasing the role of the official regulators of the competent committees in the insurance sector in the Sultanate of Oman by studying and

determining the appropriate estimated percentage in calculating various technical and financial allowances and reserves to avoid the risks of future financial failure and preparing high quality financial statements.

3. Increase the awareness of users of financial reports of the concept of accounting conservatism and the basic elements and their impact on published financial statements
4. Applying the various studies related to measuring the level of accounting conservatism within companies belonging to sectors other than the insurance sector

References:

- Ahmed, A., Morton, R., Schaefer, T., (2002). –The role of Accounting conservatism in mitigating bondholder-shareholder conflicts over dividend policy and in reducing debt costs. *The Accounting Review*, 77(4): 867-890.
2. Ball R, Kothari S (2007) Econometrics of the Base asymmetric timeliness coefficient and accounting conservation. Social Science Research Network.
3. Ball R, Robin A, Sadka G (2008) Is financial reporting shaped by debt markets or by equity markets?An international study of timeliness and conservatism. *Review of Accounting Studies* 13: 168-205.
4. Ball R, Shivakumar L (2005) Earnings quality in UK private firms: comparative loss recognition timeliness. *Journal of Accounting and economics* 39: 83-128.
5. Basu, S., 1997. The conservatism principle and the asymmetric timeliness of earnings, *Journal of Accounting and Economics*, Volume 24 Issue 1, December 1997, Pages 3–37
6. Basu, S., 2005. Discussion of “Conditional and Unconditional Conservatism: Concepts and Modeling”, *Review of Accounting Studies* ,2005 06/09, Volume 10, Issue 2-3, pp 311-32.
7. Bamber, L.S. (1987). Unexpected earnings, firm size and trading volume around quarterly earnings announcements. *The Accounting Review*, 62(3), 510-532.
8. Beaver, W., Ryan, S., 2005. Conditional and Unconditional Conservatism: Concepts and Modeling, *Review of Accounting Studies*, 200506/09, Volume 10, Issue 2-3, pp 269-309
9. Chan K, Chan LKC, Jegadeesh N, Lakonishok J (2006) Earnings Quality and Stock Returns. *Journal of Business research* 79: 1041-1082.
10. Dan Givoly, Carla K. Hayn, Ashok Natarajan 2007. Measuring Reporting Conservatism. *The Accounting Review*, January 2007, Vol. 82 No. 1, pp. 65-106
11. Dietrich, R., J., Muller, K., A., III, Riedl, J., E., 2007. Asymmetric Timeliness Tests of Accounting Conservatism, *Review of Accounting Studies*, Volume 12, Issue 1, 2007, pp 95-124
12. Gigler. Frank B and Hemmer Thomas, Conservatism, Optimal Disclosure Policy, and the Timeliness of Financial Reports *THE ACCOUNTING REVIEW* Vol. 76, No. 4 October 2001 pp. 471–493
13. Gotti, G 2008, Conditional Conservatism in Accounting: New Measure and Tests determinants, February 2008, Available at SSRN:

<http://ssrn.com/abstract> or
<http://dx.doi.org/10.2139/ssrn>.

14. Hanan M (2012) the effect of the accounting conservatism in improving earnings quality of financial reporting: A Case Study of Jordanian industrial companies. Aldrasat Administrative Sciences 38: 33-55.

15. Jimmy Lee 2012 the Role of Accounting Conservatism in Firms 'Financial Decisions Research Collection School of Accountancy pp 1-34.

16. Jomely A (2014) Accounting conservatism and its effect on the prediction of financial failure in Jordanian industrial companies: Analytical study. Master Theses. Al-Zarqa private University, Jordan.

17. Khan, M., Watts, R.L., (2009). –Estimation and empirical properties of a firm-year measure of accounting conservatism. Journal of Accounting and Economics 48, 132–150

18. Latridis G (2011) Accounting disclosures, accounting quality and conditional and unconditional conservatism. International Review of Financial Analysis 20: 88-102.

19. Lara. Juan Manuel Garcia, Osma Beatriz Garcia, and Penalva Fernando' Accounting Conservatism and firm efficiency: Journal of Accounting and Economics 61 (2016) pp 221-238

20. Masca Ema 2006 Limitations of Accounting Conservatism Research in Europe: Ante and After IFRS Adoption Recent Advances in Energy, Environment and Financial Planning pp 349-354 masca_ema@yahoo.com.

21. Ali Mazloom 2013 The Association between Various Earnings and Cash Flow Measures of Firm Performance and Stock Returns: some Iranian Evidence International Journal of Accounting and Financial Reporting, Vol. 3, No.1 pp24-40

22. Mere Badin, Miquel Duro, Fernando Peralva and Stephen Ryan "Accounting conservatism and firm investment efficiency. Journal of accounting and economics, Vol. 63 issued 2017 pp 75-98.

23. Molenaar John 2015 Accounting Conservatism and Earnings Management in the Banking Industry The effect of discretionary loan loss provisions on conditional Accounting conservatism in the United States banking industry for the period of 2002 to 2007

<http://hdl.handle.net/2105/5447>

24. Najjar J (2014) Measuring the level of accounting conservatism in the financial statements and its effect on the market values of the shares: Applied study on the

An effect of the accounting conservatism on the performance of Omani insurance

Palestine companies. *Journal of Balqa Research and Studies* 17: 177-224.

25. Nichols, C., Wahlen, J., Wieland, M., (2009). —Publicly traded versus privately held

implications for conditional conservatism in bank accounting *Review of Accounting Studies* 14 (1): 88–122.

26. Qintao, Fan, and Xiao-Jun Zhang "Accounting Conservatism, Aggregation, and Information Quality *Contemporary Accounting Research* Vol. 29 No. 1 (Spring 2012) pp. 38–56.

27. Ryan, S., 2006. Identifying Conditional Conservatism, *European Accounting Review*, Volume 15, Number 4, December 2006, pp. 511- 525

28. Roychowdhury, S., Watts, L., R., 2007. Asymmetric Timeliness of Earnings Market to Book and Conservatism in Financial Reporting *Journal of Accounting and Economics*, Volume 44, Issues 1–2, September 2007, Pages 2–31

29. Scholarone.2014 The Implications of Research on

Accounting Conservatism for accounting Standard Setting *Accounting and Business Research* 2014 pp1-48 URL: 30

30. Wang. Rz (2013) "Operating risk and accounting conservatism: an empirical study". *The International Journal of Business and Financial Research* 7: 12-29.

31. Watts, R.L. (2006). What has the invisible hand achieved? *Accounting and Business Research*, 36(1), 51-61

32. www.cma.gov.om - The Capital Market Authority of Oman / Muscat Securities Market

33. ZHANG, J. "The contracting benefits of accounting conservatism to lenders and borrowers." *Journal of Accounting and Economics* 45 (2008): 27-54

34. Zhou, J., and G. J. Lobo. 2006. Did conservatism in financial reporting increase after the Sarbanes-Oxley Act? Initial evidence. *Accounting Horizons* 20 (1):57-73.

المستخلص :

تتناول هذه الدراسة أثر الاحتياطي المحاسبي كمتغير مستقل وحجم الشركة كمتغير سيطرة على المؤشرات المالية المتعلقة بأداء شركات التأمين العمانية ممثلة في العائد على الأصول (ROA)، ربحية السهم (EPS) والقيمة السوقية (MV) للفترة ٢٠١٢-٢٠١٦. تم جمع البيانات المطلوبة من التقارير السنوية لشركات التأمين المدرجة في سوق مسقط للأوراق المالية (MSM). تكونت عينة الدراسة من (٥) شركات تأمين مدرجة في السوق لتحديد ما إذا كانت هذه الشركات تطبق مفهوم المحاسبة المحافظة. تم استخدام أساس الاستحقاق المحاسبي، واستخدم

تحليل الانحدار المتعدد لاختبار الفروض في الدراسة.

خلصت الدراسة إلى أن شركات التأمين العمانية تطبق مفهوم المحافظة، وهناك تأثير إيجابي لهذا المفهوم على أداء العائد على الأصول (ROA)، EPS والقيمة السوقية للقيمة MV للفترة (٢٠١٢-٢٠١٦) وفقا للنتائج المذكورة. خلصت الدراسة إلى عدد من التوصيات أبرزها زيادة الرقابة على هيئة الأوراق المالية على شركات التأمين ومهنة المحاسبة واعتماد الإجراءات المناسبة لتشجيع الشركات على الامتثال لمستوى المحاسبة المحافظة. مقبول الكلمات المفتاحية: المحاسبة المحافظة. شركات التأمين العمانية، العائد على الأصول (ROA)، EPS (EPS) والقيمة السوقية (MV).

An effect of the accounting conservatism on the performance of Omani insurance