

## The Impact of Accounting Conservatism Levels on Performance Indicators: A Study of Iraqi Banks Listed on the Iraq Stock Exchange During the Period (2019–2023)

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**Abstract:** This research aims to study the impact of the level of accounting conservatism on the performance indicators of a sample of Iraqi banks listed on the Iraq Stock Exchange during the period 2019-2023. The research seeks to examine the extent to which accounting conservatism contributes to improving the quality of earnings and, consequently, enhancing the value and sustainability of the banks. To achieve the research objectives, a sample of five commercial banks was selected. The Givoly & Hayn (2000) Total Negative Benefits model was used to measure the accounting conservatism variable, while the dependent variable, financial performance, was measured through profitability indicators, namely return on assets (ROA) and return on equity (ROE). To analyze the data and test the hypotheses, the research used several specialized statistical programs, including SPSS version 26, to test correlations and statistical significance. The results showed a low level of accounting conservatism applied in the banks included in the study sample. The lack of impact of accounting conservatism on either return on assets (ROA) or return on equity (ROE) indicates that the level of accounting conservatism applied does not directly affect performance indicators. This may be attributed to the influence of other operational and structural factors on performance indicators, which dilutes the impact of accounting conservatism on both ROA and ROE. One of the most important recommendations of the research is to encourage banks to apply balanced accounting reservations that ensures improving the quality of measuring profits without affecting the financial performance indicators in order to achieve financial stability as well as to improve the quality of accounting information available in the financial statements.

**Keywords:** accounting conservatism, financial performance indicators

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**Introduction:** Accounting reservation is one of the basic concepts inherent in the quality of financial reports and can be considered an accounting practice that constitutes a restriction on accounting practices and one of the determinants directed to the benefit of accounting information. Through the concept of accounting reservation represented in the immediate recording of potential losses and postponing the recognition of profits until they are achieved, accounting information is closer to reality and thus enhances its usefulness to user. Due to the increasing intensity of competition and the complexity of transactions in the economic environment in the business world in general and in the banking sector in particular, the need for more reliable financial information has increased. In this context, the role of accounting conservatism as a preventive mechanism to confront uncertainties that are intrinsically related to the main activity of banks, which is credit operations, is highlighted in the early recognition of expected losses through the formation of provisions as a proactive measure for these losses that may result from credit granting operations, especially in light of unstable economic conditions. In turn, it will be reflected in the figures of the financial statements to ensure a closer picture of the financial situation of the bank, even if less optimistic. This in turn has a clear impact on financial performance indicators, whether in the short or long term. The wise application of accounting conservatism policies creates a balance between the reality of financial reports and facing future financial risks. To achieve the objectives of the research, the research structure included four axes. The first axis dealt with a presentation of the research methodology, and a selection of previous studies. The second axis of the research included the theoretical framework of the concepts of the research variables represented in accounting conservatism as an independent variable and financial performance as a dependent variable. The third axis dealt with the applied aspect of the research, where the research sample community dealt with measuring variables, testing hypotheses, presenting and analyzing the results. Finally, the fourth axis was devoted to the conclusions reached by the researcher and the most important recommendations related to it.

## **Theme 1: Research Methodology**

### **First, the research problem.**

The evaluation of the performance of banking institutions occupies a " large" area of analysis and study in the business sector due to the interest of the banking sector from investors, creditors and other parties, as well as its pivotal role in macroeconomic stability, due to the breadth and size of banking activity, as well as the nature of the services it provides, which are usually risky,. Credit and the risks that accompany it represent a significant part of the banking business. Therefore, wise management of these potential risks is one of the factors that help to relatively improve the reliability of the indicators of evaluating the performance of banking institutions for their success and ensure their continuity in the business sector with satisfactory returns and acceptable risks. This can be achieved through the judicious application of conservative accounting practices in a way that helps avoid overstating or understating profit levels due to the recognition or non-recognition of expected credit losses by banks. The research problem lies in the imbalance between banks' application of conservative accounting policies and their expected credit risk levels, leading to a misleading picture of their financial performance. This reduces the reliability of performance indicators, making it difficult to trust these indicators when making decisions. The problem of the study can be expressed by the following question:

**1. Is there an impact of accounting conservative practices on the performance indicators in the banks of the study sample?**

### **Second: The importance of research: The importance of research can be summarized as follows:**

1. There are many motives that increase the orientation of the management of economic units towards adopting accounting reservation. Disclosure of the results of the company's business and its financial position is one of the most important of these motives. Most of the information contained in the financial statements is not devoid of accounting estimates, and this does not reduce the degree of reliance on them. Here, the importance of practicing accounting reservation is highlighted, as it represents one of the most important accounting practices that contribute to enhancing the credibility and quality of financial reports. Balanced accounting reservation increases the sincerity of the representation of accounting information, especially for items that face in measuring and evaluating uncertainty conditions. Since investors and creditors are the most affected groups "by the opportunistic actions of the management, which necessitates them to monitor and follow up the management in its choice of prudent accounting policies. Accounting reservation contributes to enhancing the value of the economic unit in the long term. This is based on what some applied studies have confirmed that accounting reservation reduces the problem of weak performance evaluation indicators.

2. The interest of users of financial statements in the performance of banking institutions based on more reliable performance indicators contributes to a more accurate assessment of the bank's ability to meet its obligations to many parties as well as maintaining a competitive role in the financing market, which enhances the economic development of business sectors.

### **Third: Research Objectives**

1. Enhance the theoretical framework of accounting conservatism and financial performance through discussion and interpretation.
2. Testing the impact of the level of accounting reservation practices on the performance indicators of a sample of banks listed on the Iraqi Stock Exchange.

**Fourth: Research Hypotheses: The research** is based on a main hypothesis that (prudent practices of accounting conservatism help to enhance the sincerity of the representation of performance indicators of the reality of the economic situation) and can be statistically formulated as follows:

**H0 Null hypothesis:** There is no statistically significant moral relationship between accounting reservation practices and performance indicators.

**H1 Alternative hypothesis:** There is a statistically significant moral relationship between accounting conservativeness practices and performance indicators.

### **Fifth: The research Population and Sample**

The research community included Iraqi commercial banks listed on the Iraq Stock Exchange

**The** research sample included (5) Iraqi commercial banks listed on the Iraqi Stock Exchange out of (23) commercial banks during the period (2019-2023). Banks that did not apply the guidelines of the Central Bank of Iraq related to the application of the financial reporting standard (9) in preparing their accounts during the years selected for the research were excluded.

**Sixth: Spatial and Temporal Boundaries:** The annual financial reports of the banks of (Sumer, Assyria, Mansour, across Iraq, the region) private commercial listed on the Iraq Stock Exchange were approved during the period from (2019-2023).

**Seventh: Statistical methods and programs used in the research**

In order to analyze the data, a number of specialized statistical programs and methods were relied upon, including: the use of descriptive statistics methods, relative frequencies, arithmetic media and standard deviations, as well as graphs to detect direct and indirect relationships for both the independent variable measures, accounting conservativeness and the dependent variable, financial performance, as well as the use of SPSS vr.26 and AMOSvr.26 to measure correlation and impact relationships between the independent variable, accounting conservativeness and the dependent variable, financial performance.

**2- Previous studies related to the variables of the research**

The study(Leon, 2020) The impact of accounting reservation on the performance of financial companies in the financial services sector registered on the Indonesian Stock Exchange aimed to determine the level of application of accounting reservation policies and their impact on financial performance. The results of the study concluded that the greater the level of accounting reservation, the better the financial performance. Moreover, the study showed that accounting reservation plays a role in reducing risks by reducing the asymmetry of information between management and investors, which enhances confidence and thus enhances the value of economic unity.

The study of (Ahmed,2021) sought to test the extent of the impact of accounting reservation practices in Saudi banks on financial performance indicators . The results of the study concluded that there is a significant and statistically significant impact of accounting reservation practices on financial performance indicators, explaining that the accounting reservation practices represented in the immediate recognition of losses and giving lower values to assets enhance the quality of profits and thus enhance the transparency and credibility of financial reports, which in turn enhances investors' confidence in the information of the financial statements of banks. Moreover, "the reliability of financial information contributes to reducing the risk of asymmetry of information to investors, which leads to reducing the cost of financing represented by interest, which contributes to enhancing the value of banks in the long term, which in turn is reflected positively" on financial performance indicators.

In the same context, the study of (Hatem et al.,2024) aimed to test the impact of accounting reservation on financial performance by comparing three indicators to measure financial performance. The results showed an inverse relationship between accounting reservation and financial performance in the short term according to the measure of return on assets and profitability index, while the relationship of accounting reservation to financial performance measured according to (Tobin,s Q) is positive and reflects the role of accounting reservation in enhancing the value of the company in the long term.

The study (Al-Issawi, 2024) aimed to measure the extent to which accounting reservation practices are applied in Iraqi private banks and their impact on the value of the company as a performance indicator. The study found a discrepancy in the level of accounting reservation practices applied between an acceptable level of accounting reservation in some banks, while other banks did not apply sufficient conservative policies. The results also showed a statistically significant relationship between the level of accounting reservation and the value of the company to the banks in the study sample.

As a study(Casciello et al.,2025), which dealt with the role of conservatism in bank accounting and tested its impact on capital management. The results of the study showed that there is a negative correlation between conditional accounting conservatism and capital management. The study indicated that this correlation is made in two directions. The first is conditional accounting conservatism, which is the immediate recognition of loss when evidence is available and postponing the recognition of profits until they achieve a negative impact on the management of progressive profits through its role in reducing excessive optimism and thus reducing the risk of relying on inflated profits, which negatively affects the management of progressive capital by enhancing the credibility of accounting information in a way that enables management to make more accurate financing decisions and reduce the expansion of high-risk investments. The second trend, the study shows that adopting conditional accounting conservativeness improves the quality of the loan portfolio, which hinders the management of progressive capital due to the low risk in the assets within the portfolio and thus reduces the need for progressive capital management. The researcher believes that this study clarifies the relationship between accounting conservatism and financial performance on the one hand. This relationship is represented in the role of conditional accounting conservatism in limiting profit management by reducing overly optimistic accounting practices that may distort financial results and thus improve the quality of profits, which enhances the company's value in the long

term and reflects on limiting the scope of progressive capital management. On the other hand, the relationship between accounting conservatism and credit risk through the role of conditional accounting conservatism in enhancing the quality of the loan portfolio by discouraging high-risk lending decisions and thus reducing potential risks, which limits the scope of progressive capital management.

## **The second axis: Theoretical framework for research variables**

### **First : Accounting Conservatism**

#### **1. The concept of accounting reservation**

Accounting reservation is one of the basic concepts inherent in the quality of financial reports and can be considered an accounting practice that constitutes a restriction on accounting practices and one of the determinants directed to the benefit of accounting information. Through the concept of accounting reservation represented in the immediate recording of potential losses and postponing the recognition of profits until they are achieved, it makes the accounting information closer to reality and thus enhances its usefulness to users (Kimouche&Boussenn, 2024:142).

Accounting conservatism is applied as an accounting policy in the financial reporting process and a view in the face of uncertainty to take action based on the worst results of uncertainty (Chairunnisya et al., 2017:64). The accounting reservation was and remains a fundamental requirement by the parties involved in the reporting process, especially after the collapses witnessed by some companies at the beginning of the twenty-first century, and the heavy losses incurred by stakeholders as a result of opportunistic behavior and wrong practices followed by the administrations of these companies (Al-Fasfus et al., 2022:288). Where external parties, especially investors and creditors, need more reliable information related to the performance of the economic unit, specifically profit information in financial reports, as accounting conservative practices are among the accounting policies most related to profit information and financial reports and their usefulness in taking decisions (Chairunnisya et al., 2017:65).

Despite the wide controversy raised by accounting conservatism, both in terms of being an advantage for economic unity in terms of the reliability of the accounting number or in terms of its manipulation, it has gained an important place in professional organizations in the preparation of accounting standards, and the subject of accounting conservatism remains the focus of many contemporary research (Kazem, 2022:192).

At the level of professional and international organizations, according to the Accounting Principles Committee (APB) in 1970 ( paragraph 35), accounting reservation is defined as a general tendency to early recognition of unfavorable events and to reduce the amount of net assets and net income. (Xie, 2015:204)

The US Financial Accounting Standards Board (FASB) defined in 1980, in paragraph (95), accounting discretion is a careful and cautious behavior in reaction to uncertainties in order to ensure that all risks and uncertainties that accompany the business environment are taken into account (Mahmoud,2023:1267).

The International Accounting Standards Board (IASB) framework of 1989 included reservation as a feature of reliability and defined it as ( Including a degree of caution in making the required estimates for some values under conditions of uncertainty, not exaggerating assets and income, and not underestimating liabilities) (Al-Khafaji, 2023:42). In 2010, the IASB concluded that the reservation was incompatible with neutrality, and so it was excluded from the IASB's conceptual framework. Subsequently, the IASB reinserted the reservation into the 2018 conceptual framework to promote neutrality by further clarifying (Kimouche, 2024:142).

The revised conceptual framework that replaced the concept of reservation with prudence stressed cautious prudence, which is supposed to support neutrality and neglect reservation or (unequal reservation). In this context, cautious prudence is supported by the practice of prudence, and prudence is the practice of prudence when making decisions in circumstances of uncertainty. Thus, the practice of prudence means that assets and income are not exaggerated and liabilities and expenditures are not arbitrarily underestimated. Similarly, the practice of prudence does not allow the reduction of assets and income or the exaggeration of obligations and expenditures, because such errors can lead to exaggeration of income or underestimation of expenditures in future periods (Šestanj-Perić & KOZJAK, 2020:158 ).

#### **From the researchers' point of view**

Wang defined reservation as the immediate recognition of potential expenses and losses, while potential or expected profits are recognized when they are achieved, which leads to the recognition of accounting profits being more accurate in timing or at the same time more sensitive in reversing bad news than good news (Wang, 2013:35). According to (Hejrani-jamil et al., 2020:180), accounting reservation acts as a reaction to uncertainty by quickly recognizing costs and liabilities and postponing the recognition of revenues and assets until the uncertainty is removed.

Accounting discretion is an approach that tends to adopt a cautious attitude that is followed to ensure that the risks faced by the economic unit are taken into account when preparing financial reports (Ciptawan & Melina, 2023:130). Accounting conservatism refers to accounting practices that require accountants to be more realistic when faced with uncertainty through the appearance of less optimistic figures with the aim of protecting users of financial information from exaggerated profits and ensuring that all potential liabilities are recognized when they arise (Khan & Shah, 2024:119).

## **2. Types of accounting reservation**

The reservation can be divided into two main parts, and the literature shows different names, as (Walker & Pope, 1999) classified the reservation into a reservation after the occurrence of the event and a reservation before the occurrence of the event, while (Ball et al., 2000) called it the name of the income statement and the balance sheet, and finally (Ball & Shivakumar, 2005) differed between them by the terms conditional reservation and unconditional reservation (Savitri, 2016:37).

**a. Unconditional reservation:** It is known as the accounting reservation of the financial position, which is the choice of accounting policies based on the idea of reducing profits and the book value of assets. The term (unconditional) means that it is not associated with negative or positive news, as it does not take into account the newly received news. It is the reservation resulting from the application of generally accepted accounting principles, which leads to a decrease in profits regardless of the current economic news (Kazem, 2022:193).

The unconditional reservation uses the initial information at the beginning of the acquisition of assets and precedes the bad news. Therefore, it is also called "the previous reservation, such as the immediate loading of the costs of most intangible assets developed internally" and the use of the accelerated fixed asset depreciation method instead of the depreciation method with economic dimensions (Jabbar, 2019:466).

**B. Conditional reservation:** It is known as the subsequent reservation, as it depends on the occurrence of the event and refers to the subsequent timing in the recognition of economic losses compared to the recognition of economic gains. Under the conditional reservation, the carrying value of net assets is recorded when companies face adverse conditions, but it is not recorded at the same speed when they face favorable conditions. It is also called "income reservation". An example of conditional saving practices is the application of the cost or market policy, whichever is less, to estimate the value of inventory at the end of the period and accounting for the impairment of assets (Xie, 2015:205).

It is clear from the above that both types are considered an "accounting" reservation that performs the same results in terms of reducing profits and the book value of the property right. However, the difference lies in the fact that the unconditional reservation uses only the information available at the beginning of the asset's life, as it represents the application of conservative accounting methods that lead to a reduction in the book value through the regular allocation of the cost of the asset over the useful life without showing any new changes in the value of the asset, while the conditional reservation reveals new information in future periods. Studies related to the unconditional reservation also pay more attention to the problems of valuing some assets and liabilities, while studies related to the conditional reservation pay more attention to improving the efficiency of contracting (Šestanji-Perić & Kozjak, 2020:161).

In addition, "the unconditional reservation precedes the conditional reservation in timing, as it is determined at the beginning of the life of the asset, while the conditional reservation depends on the timing of the occurrence of the event or the deterioration in the value of the asset (Kazem, 2022:193).

## **3. Pros and Cons of Accounting Conservatism**

### **a. Pros of accounting reservation practices**

1. Direct management to face uncertainty when preparing financial reports as a cautious reaction to adequate consideration of the uncertainty and risks inherent in the business world. (Mohamed, 2022:3).

2. The use of conservative accounting policies that protect accountants from errors resulting from the disclosure of accounting information may later prove incorrect (Gizal and Rizkoun, 16:2018).

3. Accounting reservation is a tool to reduce the optimistic or exaggerated attitude of the administration, which tends to manipulate the figures of the financial statements to serve its interests through directing conservative and unbiased accounting practices (Ilmiyah & Tumirin, 2021:227).

4. The accounting reservation meets the wishes of investors, creditors and other relevant parties who use accounting information to receive low-risk information to have a margin of safety and thus enhance the reliability and credibility of the company's financial information (Darmawan, 2023:411).

**B. Disadvantages of practicing accounting precaution:**

- 1.The application of conservative accounting policies leads to an underestimation of the value of the figures contained in the reports on revenues and assets, and an overestimation of expenses and liabilities. This would lead to the reporting of lower net income and future benefits, which leads to the transformation of revenues for future periods, as the value of the current period will be underestimated and the value of future periods will be exaggerated. Therefore, companies may have difficulty in tracking business operations internally and thus increase information asymmetry (Odia & Osazevbaru , 2018:73).
- 2.Excessive use of conservative accounting policies when preparing financial statements leads to errors in the quality of performance results, which may obscure the real situation of the economic unit, which misleads users of accounting information and does not support them in making decisions. Achieving a balance between prudence and credibility in the preparation of financial statements is necessary to enable the user of financial statements to make informed decisions (Sitepu et al., 2022:42).
3. Accounting conservatism can reduce the company's long-term performance. The company's failure to reflect the values of its real assets, and to take only the worst value estimates into account, may lead to ignoring potential gains and thus losing investment opportunities with promising future returns. (Darmawan, 2023:411)
- 4.Accounting conservatism practices are highly subjective and not based on a true scientific assessment (Qazal and Zarkoun,17:2018 ).
- 5.The wide debate and difference of views between supporters and opponents regarding the definitions and standards of accounting reservation, would cause confusion in its application (213:Xie, 2015).
- 6.Reduces the comparability of financial reporting because there are no uniform standards in its application (Savitri, 2016:40).

**4.Importance of accounting conservatism**

Accounting reservation has gained great importance among professional organizations specialized in the field of accounting and finance by tracking these practices in their versions of accounting standards, guidelines or explanations attached, as well as academic institutions that dealt with various research topics in the field of accounting reservation and reaching different conclusions and making recommendations that would enhance these practices in order to improve the usefulness of accounting information. After reviewing and investigating studies and literature, the researcher presents the importance of accounting reservation as follows:

1. Accounting discretion is important in reducing the opportunistic behavior of management and the possibility of manipulating profits, which leads to reducing the asymmetry of information, and therefore the reliance of investors on reported accounting information mitigates the problems of the agency (Muttakin et al., 2019:4).
2. The importance of accounting discretion is highlighted by enhancing the reliability of financial reports when those reports are subject to high-quality audits, which leads to adherence to more conservative accounting practices (Sahlan et al., 2024:3103)
- 3.Accounting discretion contributes to mitigating the likelihood of financial hardship by recognizing losses as soon as they are expected and managing risks proactively. Thus, it represents a preventive tool that leads to dividends supported by regular financial monitoring to ensure long-term stability (Maiyo et al, 2025:50).
- 4.Conservative accounting policies reduce the likelihood of exposure to litigation and thus avoid potential judicial costs that may arise due to overvaluation of assets and profits, as well as "mitigating the political costs that push capital-intensive institutions to tend to submit more conservative financial reports" (Yenti et al, 2023:117).
- 5.The importance of accounting discretion in its impact emerges when choosing methods that lead to a reduction in profit and asset reports or an increase in reporting of expenditures and liabilities. Through this concept, lenders will receive protection from the risk of default through a balance sheet that discloses net assets and financial statements that report bad news immediately"(Yenti et al, 2023:114).
- 6.Conservative accounting policies improve investment efficiency by limiting investment based on excessive management decisions that lack well-considered decisions (Lara et al., 2016:2).

## **5. Factors affecting the level of accounting conservative practice**

### **1. Political Costs**

The low political cost is one of the factors that increase the prosperity of management, according to the hypothesis of Watts 2003, which was that the political cost will increase with the increase in the size of the company, so the larger the size of the company, the higher the political cost to be paid, and this leads managers to tend towards reducing profits in that period, and thus the political cost can be reduced or made more conservative (Chairunnisya et al., 2017:66). On the contrary, he believes (Rahayu et al., 2018:192-193) that political costs do not affect the level of accounting reservation, explaining that "the profits used to calculate the tax costs that will be paid to the government are non-profit financial profits in the income statement and the other consolidated comprehensive income statement, and therefore any political costs that arise will not affect the economic unit when applying the accounting reservation due to the difference in tax calculations.

### **2 Company Size**

Companies are classified according to their size into large companies and small companies, and the assets owned by the economic unit represent an indicator to measure the size of the company, which is one of the factors that are taken into account to determine the level of accounting discretion, as large companies tend to use conservative accounting policies that enable them to reduce profits in order to reduce political costs, because the larger the company, the greater the political costs of the company, and among the political costs are tax costs (Pratama & Wiksuana, 2016:1341). (Wiharno et al., 2023:15) believe that the size of the economic unit positively affects accounting discretion as the large economic units adopt a pessimistic position in presenting their financial reports, and tend to be more cautious in their accounting application as the large economic units are affected by political fluctuations, so they tend to present more conservative financial reports through their construction of more conservative accounting policies in their financial reports. As confirmed by a study (2024:141. Safira et al.) that the size of the economic unit positively affects the accounting reservation, and believes that small companies do not attract the same amount of government attention compared to large economic units, so the small economic units will be more optimistic in reporting profits and tend to reduce the level of reservation in financial reports. On the contrary, he sees (, 2020:74-75. Haryadi et al.) that the size of the economic unit has no impact on the level of accounting discretion and it is possible that the managers of large economic units tend to want to show the results of good performance to obtain rewards.

### **3. Capital Density:**

One of the main factors of the political cost theory is the capital intensity, which means the ability or strength of the institution to manage the assets owned by it, whether current or non-current assets. The ratio of capital intensity to the total assets owned by the company to the sales achieved by the company is measured. The more assets required in the operating activities of the company to produce sales of the company's products, the company is classified as a large company and thus exposed to political costs. Since large companies will be more vulnerable to interference from the government, companies with a capital-intensive situation will submit financial reports conservatively to avoid high political costs (Putri et al., 2021:50).

As confirmed by a study conducted by Yenti and others, capital intensity has a positive impact on accounting discretion. The more assets used in production, the greater the likelihood of the size of the institution and thus subject to greater government scrutiny that leads to significant political costs. Therefore, capital-intensive departments tend to adopt conservative accounting policies that do not exaggerate profits (Yenti et al., 2023:122).

On the contrary, a study conducted by (Prathamay & Moozanah, 2021:87:93) and others found that capital intensity has a negative impact on accounting conservatism. The more capital intensity, the more efficient the use of assets in the pursuit of sales, and to maintain investor confidence in their funds, company managers may apply accounting policies that achieve high profits in the direction of financial reporting.

### **4. Leverage:**

It represents the amount of debt or capital used to finance the company's assets and is measured by dividing the total debt by the total assets and is considered an indicator of the level of security for lenders. If the company has high debts, creditors tend to apply the borrowed economic unit for more conservative accounting policies "in its reports, which makes them reassured about the security and recovery of their money. On the other hand, there are economic units that tend to submit less conservative financial reports to attract creditors to provide loans to the economic unit (Haryadi, et al., 2020:68). (Sulastri & Anna, 2018:67) The greater the leverage of the company, the more conservative the company is justified, as high leverage becomes a threat to the survival of the company.

(Khasanah, 2020:67) and (Dewi & Suryanawa, 2014:231) agree on the existence of a direct relationship between financial leverage and accounting reservation. The greater the financial leverage of the company, the greater the right of creditors to monitor and know the progress of operations to protect their money in the company. Accordingly, creditors usually demand managers to apply the reservation in preparing financial reports so that they feel confident to ensure the recovery of their money.

In another direction, he believes (Putri et al., 2020:109) that the size of the company's debts does not ensure that the company is more conservative in financial reporting and decision-making, as creditors do not actually supervise the company's operations and accounting operations, which provides flexibility for managers to conclude debt agreements. Accordingly, the company will choose an accounting method that increases its profits, which is inversely proportional to the accounting reservation policies in which the value of assets, profits and income are presented in a way that is less than their real value.

He adds (Putri et al., 2021:57) the more debt the company has, this will encourage managers to submit financial reports that tend not to be conservative .

### **5. Institutional Ownership:**

Institutional ownership is the ownership of shares by external parties or other institutions. The higher the level of institutional ownership, the greater the level of supervision and control exercised by external parties to reduce the opportunistic behavior of management (Mardania & Abbas, 2024:1029).

(Putri & Kusumawati, 2024:290) found that there is a positive impact of institutional ownership on the level of accounting discretion. This is in line with the agency's theory, which states that the presence of institutional parties can allow companies to report their revenues in a conservative manner . The participation of institutional parties can make the company work to enhance the function of monitoring management performance in the best possible way by applying conservative accounting policies. The more institutional ownership, the greater the pressure on managers to apply conservative financial reports .

On the contrary, (Marcellino, 2022:1967) sees a negative impact of institutional ownership on accounting reservation, while (Thomas et al., 2020:90) sees no impact of institutional ownership on accounting reservation.

### **Second: Financial Performance:**

**1. The concept of financial performance:** As a result of "the continuous development and progress in the world of business at a time, and the increase in the intensity of competition between institutions makes the financial situation of great importance, therefore, financial issues must be a concern, which means that each economic unit must be careful in developing policies to face competition and maintain continuity, as the existence of a good financial situation indicates a good financial performance of the institution in its economic activities, as each economic unit aspires to two main goals, which are to achieve profits and continuity in the long term, and these goals can be achieved when the economic unit is able to exploit all the resources available to it and operate its operations effectively and efficiently (Adur et al., 2018:206).

Accordingly, the concept of financial performance refers to the ability to manage available resources "in an optimal manner" to achieve the desired return. Financial performance reflects the level of efficiency and effectiveness of the use of resources represented by (effort) against the results achieved (impact) to ensure development and sustainability in a particular field. (Burja & Mărginean, 2014:217)

Performance is defined as a description of the achievements made by the economic unit in its operational activities, both in terms of financing aspects, marketing aspects, technological aspects and aspects of its human resources (Trianto, 2017:2). It refers to the institution's ability to generate new resources from daily operations within a specified period of time. (Samuel, 2015:2)

As defined (Santoso & Supatmi, 2021:346) financial performance is the result of decisions made by management to achieve the objectives of the institution effectively and efficiently, it reflects the sound management of the economic unit in accordance with the rules of financial management.

Thus, financial performance represents a reflection of the results achieved by the company during a certain period and the measurement of the development of these results by analyzing the financial statements contained in the financial reports of the economic unit concerned (Gulo et al., 2022 :1437).

### **2. Factors that affect financial performance:**

**A. Internal factors :** There are many internal factors that affect financial performance, including:

**1. Capital structure:** The capital structure of the economic unit, which contains a high percentage of debt, significantly affects financial performance, as the high level of debt leads to an increase in capital costs and interest fees and thus reduces the capital used by the economic unit to finance its operational activities, causing a decrease in the volume of performance and a decline that reduces the profitability of the economic unit (Hasibuan & Tinambunan, 2024:851).

**2. Human resources:** Human resources management has an impact on the competitiveness of an economic unit. In the long term, effective human resources management can enhance competitiveness by providing high-quality work, which in turn improves the performance results of economic units (Mugiati et al., 2023:44).

The study (Rosyafah & Pudjowati, 2024:525) stressed the need to align human resources management practices with the strategy of the Economic Unit and invest in capacity development, where the skills and competencies of employees, in addition to the effectiveness of human resources management practices play a pivotal role in the success of the Economic Unit.

**3. Quality and asset management:** The quality of the assets of the economic unit affects its financial performance through the ability to generate stable cash flows. Economic units with higher asset quality tend to achieve better financial performance that enables them to benefit from their resources more effectively. The quality of assets plays an "important" role in ensuring the reliability and security of investment in them. Maintaining high-quality assets, especially in sectors where physical assets are critical, enables the economic unit to achieve more stable profitability and is less vulnerable to market fluctuations. It also enhances investor confidence. An efficient asset management strategy also affects financial performance by investing funds efficiently to achieve predetermined financial goals. This includes allocating resources wisely and improving investment, which contributes to improving business performance (Kismawadi, 2024:13).

**4. Governance of the economic unit:** The governance of the economic units (GCG) reflects the requirements of good governance. It refers to the exercise of authority over the entity of the economic unit represented by the systems and methods it uses to provide added value to shareholders that is sustainable in the long term, taking into account the interests of other stakeholders based on the laws and regulations in force (Firdaus & Santioso, 2023:141).

Good institutional governance is a structure, system and mechanism that regulates the pattern of the relationship between the economic unit and shareholders to achieve the maximum performance of the economic unit without harming stakeholders (Manossoh, 2016:16).

Corporate governance plays an important role in enhancing financial performance through its role in increasing the transparency of financial reporting, improving decision-making, reducing agency costs, reducing abuse of power as well as maintaining the sustainability of the economic unit, and enhancing its image in the long term (Sumarna & Muzakir, 2022:3).

**5. Social responsibility:** Social responsibility reflects the concept of "modern management and is represented by the activities carried out by the economic unit to contribute positively" to society and the environment, which go beyond economic and legal obligations and which participate in building a sustainable economy by taking into account all stakeholders such as employees, managers, local communities and society in general to improve the quality of life in a way that benefits business as well as development (Sumarna & Muzakir, 2022:4).

(Ahmad et al. 2021:15) believes that the social responsibility of the economic unit towards society plays an important role in enhancing its value in the long term. It is an integration of the economic performance of the economic unit and contributes to improving the relationship between the economic unit and its stakeholders, which leads to improving its public reputation, enhancing the confidence of customers and thus enhancing its competitive advantage and improving its financial performance.

## **External Factors**

**1. Political instability:** Political instability has a significant negative impact on financial performance, and one of the main reasons for the negative impact of political instability on the performance of economic units are the losses of low productivity due to security conditions that lead to low sales as well as changes in demand levels (OUA et al., 2020:50).

**2. Government regulations:** The complexity of government regulations, especially tax regulations, increases compliance costs and administrative burdens. SMEs face significant challenges in adhering to tax laws, which negatively affects their growth prospects and competitiveness. These challenges can stifle the spirit of entrepreneurship, limiting their potential contributions to the economy (Waskita & Ashari, 2025:2).

**3. Economic factors:** Inflation, interest rates and GDP growth are among the main economic factors that significantly affect financial performance. Studies have reached varying results regarding the impact of inflation on financial

performance, as a study (Suraw & Kariuki, 2018:703) indicated that high inflation rates negatively affect financial performance as a result of increasing production costs and decreasing the purchasing power of customers, and therefore increasing the level of inflation leads to a decrease in the financial performance of economic units.

From another point of view, the study of (Al-Fadhili et al., 2022) indicates that there is a positive impact of the high inflation rate on financial performance. The researchers point out that the reason for the positive impact is due to the ability of the management of the economic unit to predict future inflation and the resort of bank managers to adjust interest rates according to "expected inflation to achieve profitability reflected on financial performance. From the point of view of the researchers, the negative impact of inflation on performance results in the case of unexpected inflation. This means that the impact of inflation on profitability depends on the ability of the management of the economic unit to predict future inflation and thus adjust interest rates in a way that reflects positively on financial performance.

High interest rates also have a role in reducing the tendency of commercial institutions to borrow, which affects investment and financial performance negatively. "The absence of policies regulating interest rates by efficient executive bodies has reduced the company's performance and value, which leads to a decrease in its profit margins (Suraw & Kariuki, 2018:703).

In addition, fluctuations in exchange rates have a negative impact on financial performance. Fluctuations in exchange rates may increase production costs, which negatively affect the profit margin and thus reduce the ability of the institution to grow. Instability in exchange rates can also increase uncertainty, which negatively affects the ability of management to make investment decisions due to the difficulty of estimating future costs and profits (Napatipulu et al., 2024:174).

GDP growth also positively affects financial performance by increasing the production of goods and services, as higher economic growth leads to increased consumer demand, and higher levels of investment, which supports the growth of institutions and thus a higher level of financial performance (yue et al. 2024:259).

### **3. The importance of evaluating financial performance: The importance of evaluating financial performance lies in the following: -**

1. Sound financial performance assessment is a proactive strategy for identifying potential risk indicators through its role in reflecting a comprehensive picture of the financial situation of the economic unit, including the ability to repay debt, make profits and work sustainably, enabling management to make preventive decisions to reduce potential risks (ALIFIA & SATRIO, 2024:14).
2. The importance of evaluating financial performance in determining the success or failure of any economic unit in managing its resources is highlighted, as it provides insights into the effectiveness of the economic unit in achieving its desired profits (Fauzi et al., 2024:104).
3. Financial performance evaluation plays an "essential" role in improving decision-making. Performance evaluation contributes to providing internal and external stakeholders with information that enables them to make informed decisions by analyzing data in financial reports and determining the level of profitability, liquidity, operational efficiency and other financial indicators that give a clear picture of the state of the economic unit over a certain period of time that helps to make economic and commercial decisions (Dharma et al. 2024:138).
4. Financial performance evaluation helps to keep economic units in a competitive environment, by providing information that enables them to know their financial situation and thus improve their performance by evaluating it effectively and making informed investment decisions that enable them to continue in the long term (Katrancı et al., 2025:27).
5. Financial performance evaluation contributes to enhancing effective communication between the economic unit and stakeholders by providing a unified model for the results of financial performance. It also provides a common language for investors, management and analysts, which enhances transparency and helps attract investors (Mathew, 2015:19).

## **Section Three: The Practical Aspect of the Research**

**First: Description of the community and sample of the research:** The research community represented the (49) Iraqi banks listed on the Iraq Stock Exchange during the time limits of the research, including (22) commercial banks and (27) Islamic banks, where the research sample included private non-Islamic commercial banks because of the difference in the work and mechanisms followed in Islamic banks from commercial ones. The sample included five commercial banks, which constitute 23% of the total number of (22) private commercial banks listed on the Iraq Stock Exchange

for the period from (2019-2023), and this series was selected for the availability of data covering the requirements of the research.

**Second: Measuring variables:**

**1.Measurement of the independent variable Accounting reservation:** The model (Givoly & Hayn 2000) was adopted to measure the level of accounting reservation of the units in the research sample. The model is based on the idea of negative accruals by comparing the accounting profit on the basis of accrual and the net cash flow from operating activities, where the difference between them reflects non-cash operations (receivables) that have been recognized. Therefore, when these receivables are negative, this indicates that the economic unit recorded losses or expenses on the basis of accruals during a period of time that led to the emergence of negative receivables, which indicates a more cautious approach " in recognizing expected profits and accelerating the recognition of expected losses, which in turn represents the practice of a level of accounting reservation. Therefore, the increase in the negative ratio is an indicator of" more conservative accounting practices "and the accounting reservation is measured according to" the following model:(Waheed, 2023: 41), (El-Habashy ,2021:5)

$$\text{CONACC} = \frac{\text{TACC}_{it}}{\text{TA}_{it}} \times (-1)$$

$$\text{TACC}_{it} = (\text{NI}_{it} + \text{Dep}_{it}) - \text{OCF}_{it}$$

Whereas:

$\text{TACC}_{it}$  = total company dues (i) for the year t))

$\text{NI}_{it}$  = net income of the company i)) for the year t))

$\text{Dep}_{it}$  = the company's expenses (i) for the year (t)

$\text{OCF}_{it}$  = Company operating cash flow (i) for the year (t)

$\text{TA}_{it}$  = Total Assets

**Table (1) Measuring the accounting reserve of banks, sample of the research**

Average	2023	2022	2021	2020	2019	Bank	C
-.045	-129	-126	0.138	0.06	167	SOMER	1
-0.069	-.048	153	-0.046	013.	-0.109	Assyria	2
164	0.286	121	.807	.142	-0.036	Almansour,	3
-0.068	-119	0.063	-0.19	-0.07	0.1	Across Iraq	4
44	225-	0.229	0.195	425	0,007	Region	5

**Source: The researcher's numbers based on the financial reports data of the banks, the sample of the research published on the website of the Iraqi Stock Exchange.**

It is noted from Table (1) that all banks generally follow "relatively low accounting reservation policies" where the arithmetic mean showed that the highest conservative bank " is the bank of the region while the lowest conservative bank" is Al-Mansour Bank compared to the banks in the study sample, and in general the arithmetic mean indicates low levels of accounting reservation.

**2. Measuring the dependent variable (financial performance):** The profitability indicators of return on assets and return on equity were adopted to measure the financial performance of the banks of the research sample.

(Oktaria & Arifa,2022:172,176)

a. **Return on assets(ROA):** This ratio measures the ability of the economic unit to manage its assets and achieve profits. It is an indicator of operational efficiency. Therefore, the higher this ratio, the more evidence it is of the operational efficiency of the unit in investing its assets. It is measured according to the model :

$$\text{Return on Assets} = (\text{Net Income}/\text{Total Assets}) \times 100$$

**Table(2) Calculating the percentage of return on assets**

Arithmetic Mean	2023	2022	2021	2020	2019	Bank	C

<b>%-0.211</b>	%-2.347	%0.385	%0.301	%0.319	%0.286	<b>SOMER</b>	<b>1</b>
<b>%2.086</b>	<b>%3.296</b>	<b>%1.654</b>	<b>%1.242</b>	<b>%3.118</b>	<b>%1.12</b>	<b>Assyria</b>	<b>2</b>
<b>1.497%</b>	3.492%	1.717%	1.163%	0.548%	0.566%	<b>Almansour,</b>	<b>3</b>
<b>-0.471%</b>	-0.886%	-1.930%	-0.793%	0.873%	0.382%	<b>Across Iraq</b>	<b>4</b>
<b>1.709%</b>	4.06%	0.932%	1.104%	1.185%	1.264%	<b>Region</b>	<b>5</b>

Source: The numbers of the researcher based on the financial reports data of the banks, the sample of the research published on the website of the Iraqi Stock Exchange

Table(2) shows that Assyria Bank achieved the highest return on assets during the study period and in an upward manner. The arithmetic mean indicates that the banks of the commercial region and Mansour, respectively, have the second and third highest returns, respectively. As for a banker through Iraq and Sumer, they are the lowest returns" during the first study years (2019-2020 ) followed by a noticeable loss during the years (2021-2022-2023). In general, the computer mean shows the highest return achieved by Assyria Bank and the lowest return achieved by Sumer Bank and across Iraq.

**B. Return on Equity (ROE):** It is a financial ratio that measures the size of the return on equity invested as well as expressing the quality of the management of those funds. The decrease in this ratio leads to a decrease in dividends and is measured according to the equation below:

$$\text{Return on Equity (ROE)} = (\text{Net Income} / \text{Equity}) \times 100$$

**Table (3) Calculating the percentage of return on equity**

<b>Arithmetic Mean</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>Bank</b>	<b>C</b>
<b>%-0.207</b>	%-2.713	%0.476	%0.425	%0.405	%0.372	<b>SOMER</b>	<b>1</b>
<b>%4.49</b>	%8.14	%4.380	%2.708	%5.420	%1.801	<b>Assyria</b>	<b>2</b>
<b>%5.097</b>	%12.714	%4.47	%2.898	%2.445	%2.96	<b>Almansour,</b>	<b>3</b>
<b>%-0.797</b>	%-1.350	%-3.116	%-1.126	%1.112	%0.496	<b>Across Iraq</b>	<b>4</b>
<b>%4.864</b>	%11.305	%3.311	%2.898	%2.558	%4.246	<b>Region</b>	<b>5</b>

Source: The researcher's numbers based on the financial reporting data of the banks, the sample of the research published on the website of the Iraqi Stock Exchange.

In Table(3), the Bank of the Region, Al-Mansour and Assyria show that they have achieved the highest return on the invested funds, as Al-Mansour Bank achieved returns with an upward trend during the time series of the study period, while the rates of returns on the equity of the banks of the Region and Assyria fluctuated downwards and upwards. As for Sumer Bank, it was able to achieve remarkable returns after losses during the years (2019-2020-2021), and a bank across Iraq reflects a continuous decline that led to losses during the years (2021-2022-2023).

**Third: Testing hypotheses, presenting and analyzing results:** To achieve the objectives of the research, testing its hypotheses and analyzing these data, a number of specialized statistical programs were used, including SPSSvr.26 and AMOS vr.26 along with Excel. Within the framework of the statistical methodology, a set of methods were applied for the purpose of detecting direct and indirect relationships between the research variables. These methods included descriptive statistics represented by relative frequencies, computational media, standard deviations, correlation coefficients and regression analysis to detect the strength and direction of the impact between the studied variables, as well as a number of statistical tests dedicated to verifying the significance and non-significance of the parameters of the models used to test the relationship between accounting conservativeness as an independent variable and financial performance indicators as a dependent variable. The research included the main hypothesis

**H0 Null hypothesis:** There is no statistically significant moral relationship between accounting reservation practices and performance indicators.

**H1 Alternative hypothesis:** There is a statistically significant moral relationship between accounting conservativeness practices and performance indicators.

The table below includes the direct impact of the accounting reservation (CONACC) on the financial performance indicators (return on assets (ROA), return on equity (ROE), and test (t).

**Table (4)The direct impact of the independent variable Accounting Conservatism (CONACC) on financial performance indicators, testing and morale**

	Estimate	S.E.	C.R.	Sig.	R <sup>2</sup>
ROA < --- CONACC	(0.068)	0.014	.334	.738	.005
ROE < --- CONACC	123	0.035	.609	.542	.015

**Table(4) shows that the results of the estimated coefficient of the relationship between the independent variable, the accounting reservation and the indicators of the dependent variable of financial performance are as follows:**

1. With regard to measuring the impact of accounting reservation (CONACC) on the rate of return on assets (ROA), we note that the value of the coefficient was positive (0.068), which indicates that the high degree of reservation can contribute (even if weakly) to improving the return on assets, but this impact was not statistically significant, as the value of (CR=0.334) with a moral value of (Sig. = 0.738), which is greater than 0.05. We also note that the coefficient of determination R<sup>2</sup> decreased to (0.005), which means that the accounting reservation explains only half a percent of the variation in the rate of return on assets.
2. The results indicate that the effect of the accounting reservation (CONACC) on the rate of return on equity (ROE), has reached the estimated value of the coefficient of 0.123, which is positive and indicates that the increase in the level of accounting reservation can contribute slightly to raising the return on equity, but this effect is also statistically insignificant, as the value of C.R. = 0.609 and the degree of significance equal to 0.542, which is less than the level of significance 0.05, and the coefficient of determination ((R<sup>2</sup> =0.01) was also low, which means that the accounting reservation explains only 1.5% of the variation in the return on equity.

#### **Fourth Theme: Conclusions and Recommendations**

##### **First: Conclusions :**

In this axis, the most important conclusions reached by the researcher were highlighted, which are as follows:

- 1- The research results showed that there is no significant effect of accounting conservatism policies on the return on assets (ROA) rate, as the non-significant positive correlation between accounting conservatism and the ROA index indicates that there is no substantial effect of accounting conservatism policies on performance results. The researcher suggests that the reasons for this are due to the low level of accounting conservatism applied. The return on assets may be affected by other operational factors, such as raising interest rates, which leads to an increase in net income and thus an improvement in the ROA rate.
- 2- There was no significant effect of conservative accounting policies on the return on equity (ROE). The researcher attributes this to the low level of accounting conservatism applied, and the return on assets may be affected by structural factors such as loan restructuring or financial leverage.
- 3- The research results indicate a deficiency in the level of accounting conservatism, and that its application is done in compliance with the instructions and directives of the regulatory authorities and not based on a technical accounting assessment that is commensurate with the size of the risks.

##### **Second: Recommendations:**

1. Encourage banks to apply a balanced accounting reservation that ensures improving the quality of profit measurement without affecting the amounts on the financial performance indicators in order to achieve banking financial stability as well as improving the quality of accounting information available in the financial statements. Thus, users of accounting information can assess the real performance of banks.
2. Enhancing the understanding and capabilities of accountants of the importance and role of accounting reservation in banking business and directing them to apply it within international standards with clarity of disclosure in the financial statements.
3. Supporting expanded disclosure about accounting conservative policies and the justifications for its positive impact on financial and financing risk management in a way that enhances the understanding that accounting conservative policies are not just accounting practices but an effective preventive tool to enhance the value of the financial position.

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