



**An-Najah National University**  
**Faculty of Graduate Studies**

**THE IMPACT OF ACCOUNTING CONSERVATISM ON  
STOCK LIQUIDITY: AN EMPIRICAL STUDY IN  
EMERGING MARKETS**

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**This thesis is Submitted in Partial Fulfillment of the Requirements for the Degree  
of Master of Finance, Faculty of Graduate Studies, An-Najah National University,  
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**2025**

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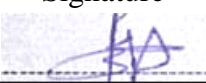
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## **Dedication**

For my mom and dad, I appreciate you keeping the interest rates on all of my debts  
low.

In appreciation of your unwavering love and support, I dedicate this to my parents.

I'm giving this to my folks. I appreciate your effort.

## **Acknowledgments**

The chance to perform the study on "The Effect of Accounting Conservatism on the Liquidity of Shares of Companies Listed in the Palestine and Amman Stock Exchanges" was provided by Dr. Muath Asmar, for which I am very grateful. I also want to express my gratitude to the entire team of An-Najah University's Department of Financial Sciences for their support and direction in carrying out this project.

## **Declaration**

I, the undersigned, declare that I submitted the thesis entitled:

### **THE IMPACT OF ACCOUNTING CONSERVATISM ON STOCK LIQUIDITY: AN EMPIRICAL STUDY IN EMERGING MARKETS**

I declare that the work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

**Student's Name:** **Majd Abu Hijleh**

**Signature:** *Majd Abu Hijleh*

**Date:** 05/01/2025

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# **THE IMPACT OF ACCOUNTING CONSERVATISM ON STOCK LIQUIDITY: AN EMPIRICAL STUDY IN EMERGING MARKETS**

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## **Abstract**

This study aims to verify accounting conservatism affects the liquidity of shares of companies that are listed on the Amman and Palestine stock exchanges. From 2009 to 2022, 202 businesses listed on the Amman Stock Exchange and the Palestine Stock Exchange were included in this study's annual panel data (cross-sectional/time series). Multiple linear regression, the method of moments (GMM) model, and descriptive statistics were employed. to evaluate the research hypothesis. And because they were newly listed, we did not include companies like Al-Safa Bank Company, Arkan Real Estate Company, Ibn Sina Specialized Hospital Company, and Amlak Real Estate Investment and Trade Company that were listed on the Palestine Stock Exchange because we did not have annual reports for them for all of the study's years. to reach the Palestine Stock Exchange's total number of listed businesses (45).

The findings show that during the study period, accounting conservatism had a positive impact on stock liquidity, that when accounting conservative measures increase, stock liquidity increases as well. The findings of the investigation reported in the study contribute to the body of knowledge that is both theoretical and practical. It fills up the pertinent gap. The effect of accounting conservatism on stock liquidity.

**Keywords:** Accounting conservatism, stock liquidity, Palestine Stock Exchange, Amman Stock Exchange

# Chapter One

## Introduction

### 1.1 Introduction

Because it can mobilize the savings of people who might not have the time or expertise to manage their investments effectively, the stock market is regarded as a key pillar for national economic development. These savings can then be directed toward investment opportunities that support the national economy and raise the level of prosperity by reinvesting them in new, productive, and service-oriented projects and expansions. As a result, it can lead to more efficient allocation of capital to projects that increase employment opportunities, contribute to economic growth, and improve living standards.

The stock market needs a number of qualities, with liquidity being one of the most crucial, in order to carry out its function effectively and efficiently. The capacity to swiftly purchase or sell assets at a known price, typically near the most recent transaction price, provided that no new market information becomes accessible, is reflected in liquidity (Al-Jazzar & Al-Baramawi, 2022). To reduce excessive price volatility, trading rules and system developers work to provide a high degree of liquidity for listed securities. According (Amihud et al., 2006), this high liquidity may help to expand the buying and selling opportunities, making stocks a more appealing investment. And the liquidity of a stock is very important for both companies and investors. Some investors may rely on liquidity as a criterion for comparing available stocks and purchasing stocks with high liquidity. This is because this type of stock may contribute to reducing the risks that an investor may bear when investing in stocks with low liquidity. Among these risks is a decline in the stock price, in addition to the investor's inability to recover his investment at any time. Therefore, some investors may buy stocks at a high price, but on the condition that these stocks are also characterized by high liquidity (Lambert, 2007).

Information asymmetry has been found to be one of the major variables influencing stock liquidity, and researchers have directly connected the two. This is clear from a study by (Al-Jazzar & Al-Baramawi, 2022), which found that when information asymmetry rises, investors become less inclined to invest in financial markets, which lowers stock liquidity.

Accounting conservatism is a strategy that has arisen as a solution to the issue of information asymmetry. It aims to reduce the knowledge gap between management, stakeholders, and investors while providing accurate information to investors and decision-makers. There are many motives that increase the tendency of corporate management to adopt accounting conservatism, which can be classified into contractual motives, whether between management and owners, or motives of the risk of litigation resulting from the asymmetry of accounting information, and since investors are the most affected group by the opportunistic actions of management (Obaid, 2010).

When problems with agency theory emerged, accounting conservatism became necessary because managers want to maximize their personal gains at the expense of shareholders, which undermines the reliability and caliber of financial reporting. Accounting conservatism, according to (Isnawati et al., 2018) is one of the core ideas of financial accounting that aims to offer recommendations on how to accurately disclose a company's assets and liabilities. In (Gantowati et al., 2022) Notably, the accounting conservatism policy considers the lower values of assets and revenues and the higher values of liabilities and expenses, preventing the company's stock prices from being overvalued and promoting the efficiency of financial markets. which prevents the company's management from engaging in opportunistic actions that prioritize its interests over the interests of other parties. As a result, investors and stakeholders obtain more information as a result of this degree of disclosure, which is then examined to determine investment choices and impacts share liquidity. In (Isnawati et al., 2018) These findings imply that accounting conservatism lowers stock prices by swiftly exposing bad news, hence reducing firms' information risk. As a result, there is a greater demand for stocks, which improves stock liquidity due to faster trading.

In order to ascertain the kind and direction of this link, we are interested in investigating the relationship between accounting conservatism and stock liquidity. A sample of publicly traded companies with shares on the Amman and Palestine Stock Exchanges will be the subject of the study.

## **1.2 Study Problem and Questions**

As we can see from the above, there are differing research findings about the nature and significance of the connection between accounting conservatism and stock liquidity. The findings of earlier research on the relationship between accounting conservatism and stock liquidity have been mixed. For example, some studies (Gantowati et al., 2022) have proposed that accounting conservatism increases stock demand, which in turn improves market liquidity. However, as (Khan & Watts, 2009) point out, some scholars contend that accounting conservatism may lower stock liquidity because it promotes a pessimistic view and early disclosure of losses and expenses. In light of these conflicting results, we raise the following primary query:

What effect does accounting conservatism have on the liquidity of stocks in publicly traded companies in Jordan and Palestine?

## **1.3 Study Objectives**

The study's goals are to determine the type of impact accounting conservatism has on stock liquidity and look into the direction of this relationship. In order to arrive at a number of conclusions and recommendations that would help to improve stock liquidity in the Jordan and Palestine stock exchanges, this study intends to ascertain the nature of the relationship between accounting conservatism and stock liquidity. By applying the findings to the community of companies that are traded in both Jordan and Palestine, the study hopes to apply the findings to Jordan and Palestine in order to provide a realistic and useful dimension, which is crucial for both academic and practical purposes.

## **1.4 Study Importance**

The following are some of the ways that the study's significance is emphasized:

1. It's critical to comprehend the variables influencing stock liquidity, and this study sheds light on the relationship between accounting conservatism and stock liquidity. Investors and traders can have a thorough knowledge of the elements influencing the simplicity of purchasing and selling stocks by comprehending this relationship.
2. this relationship provides vital insights into investment behavior. While the practice of accounting conservatism is meant to garner investor trust, it can sometimes backfire when huge losses are declared and gains are ignored, which lowers investor

confidence and leads to less involvement in financial markets. Regulators and market authorities can lessen information asymmetries, enact policies to improve transparency, and promote increased investor engagement by knowing how accounting conservatism impacts stock liquidity.

3. Market participants may be impacted by the study's findings. Investors and decision makers may find it easier to make decisions if a substantial correlation between accounting conservatism and stock liquidity is shown. When assessing investment prospects, they might modify their tactics and take disclosure and information availability into account.
4. The findings and suggestions of the study may aid in the advancement and enhancement of financial markets. Policymakers and market authorities can create policies to improve market efficiency, boost liquidity, and lessen information asymmetry by determining how accounting conservatism affects stock liquidity. This might result in stronger and more transparent markets, draw in a larger pool of investors, and eventually help the economy as a whole.

### **1.5 Study Terms**

#### Accounting conservatism

A method that mitigates uncertainty in financial reports through accounting practices, which contribute to accurately reflecting financial reports. Accounting conservatism limits excessive optimism among management and prevents them from manipulating financial reports to suit their interests (Al-Tahan and Nakhil, 2020).

#### Stock liquidity

Stock liquidity refers to the exchange of quantities of shares between market participants without any significant impact on the price (Ilmanen, 2011).

#### Information asymmetry

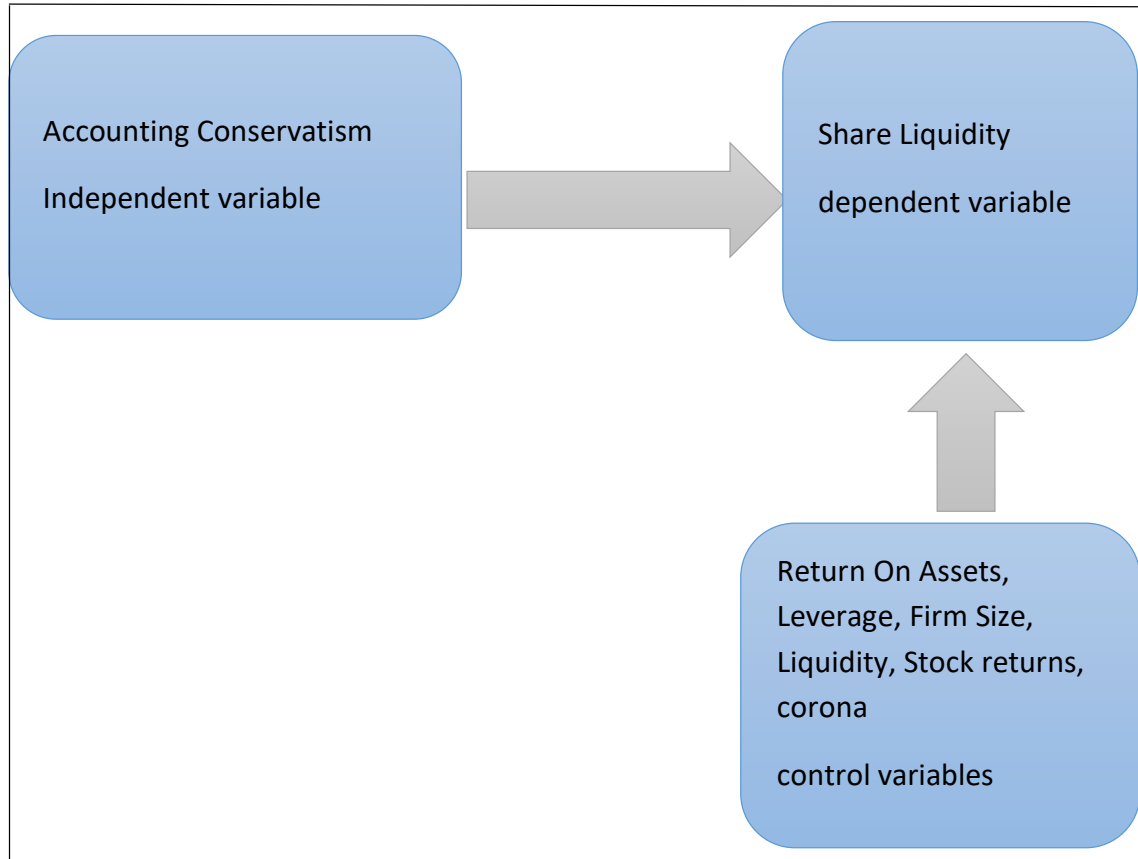
Information asymmetry is defined as one or more investors having private information about the company's value, while other investors have not yet received that information, and thus their degree of benefit is limited to public information only (Hussein & Ajeeb, 2018).

## 1.5 Study Form

The relationship between the study variables is depicted in the following figure:

**Figure 1.1**

*The relationship between the study variables*



## 1.6 Literature Review

### 1.6.1 Background

The study (Arrak, 2018) states that stock liquidity is the capacity to trade. The owner of common stock has the freedom to sell his holdings whenever necessary because it is sold at a reasonable cost with minimal effect on the price. and the significance of stock liquidity in global financial markets is emphasized in all accounting literature. The effectiveness of financial markets also depends on stock liquidity (Kumar & Misra, 2015; Tuffley, 2021), It is helpful for risk management, hedging, and asset pricing, and it has a big influence on businesses and investors (Musneh et al., 2021).

Investors' capacity to reinvest their money was hampered by the stock market's lack of liquidity after the global financial crisis of 2008–2009. This raised interest in stock liquidity on a worldwide scale, and scholars and practitioners focused more on liquidity determinants in an effort to point the possible causes of market liquidity.

According to earlier research, one of the most significant factors influencing stock liquidity in this context is the rise in information asymmetry among market participants. This became more apparent following the global financial crisis and financial and accounting scandals involving a number of multinational corporations, including Enron, Worldcom, Parmalat, and Lehman Brothers. The significance of keeping an eye on stock liquidity was made clear by these crises (Musneh et al., 2021).

It is important to note that stock liquidity is very important to investors and issuing corporations. Increased stock liquidity immediately impacts a company's market value by allowing investors to sell at greater prices. By increasing the amount raised as a result of increased stock liquidity, it can indirectly lower the cost of capital (Nguyen et al., 2016).

According to this research, the use of information and the implementation of earnings management techniques are the most crucial elements (Ascioglu et al., 2012; Chung et al., 2009; Goodyear et al., 2010; Lafond et al., 2007). According to these research, firms' greater use of profits management strategies, which take advantage of information asymmetry and the managerial role it plays, is to blame for the decline in stock liquidity. We can conclude that information asymmetry has a negative effect on stock liquidity since it has been discovered that earnings management tactics have a negative effect on information asymmetry. These studies demonstrate that the usage of earnings management strategies rises as information asymmetry increases, which helps to explain the detrimental effects of these activities on stock liquidity. The use of information and the application of earnings are the two most crucial elements found in this research. As information asymmetry spreads, it may strengthen and incentivize management to use earnings management techniques, which in turn creates information asymmetry and opens the door for earnings management.

According to earlier research, information asymmetry is the main reason why profit management strategies aim to maximize management interests at the expense of other stakeholders (Chang et al., 2017; Han & Zhou, 2007; Rani et al., 2018). Because they

lack the necessary information to effectively control management, opposing stakeholders find it harder to detect earnings manipulation by management the more information asymmetry there is in a company.

A larger information asymmetry gap could result from the high level of earnings management methods, which could have a detrimental impact on trading volume and stock liquidity. According to a study by (Matoussi & Chakroun, 2008), the existence of information asymmetry may result in fewer market participants, a sign of a lack of trust in the accounting data that businesses present in their financial reports. The inferior quality of accounting data resulting from creative accounting, profits management, or other exploitative tactics that take advantage of the knowledge asymmetry between management and other stakeholders may be the cause of this.

According to a study by (Obeid, 2008), the growing state of information asymmetry and its effects may discourage some ignorant investors from entering the market because they are afraid of losing money when they trade with more knowledgeable investors. They may also decide to only invest in businesses they are familiar with, especially if they cannot afford the expense of obtaining and analyzing information about other businesses. To level the playing field between those with and without private information, they can also depend on brokers and financial analysts to provide the required analysis for them.

Recent study has demonstrated (Fang et al., 2014; Huang et al., 2017; Li et al., 2014) that, in contrast to what we previously discussed, there is a negative causal association between stock liquidity and information asymmetry. In other words, rather than the other way around, stock liquidity may have a bigger impact on information asymmetry within businesses. Increased stock liquidity might persuade knowledgeable investors to gather more personal data and use it to inform their investing choices. The information asymmetry issue may be resolved and the information environment improved if more information is made available to investors and market participants.

One of the key elements that can persuade institutional investors to purchase a larger portion of these companies' shares and become major shareholders is increased share liquidity. They are so motivated to obtain confidential knowledge about the business in order to thwart any opportunistic actions taken by management. Block holders can thus increase the efficacy of corporate governance by enacting the threat of market exit if they

find management engaging in opportunistic practices like earnings management or putting forth little managerial effort that could jeopardize the company's interests and market stock liquidity. This could compel management to enhance managerial effort and restrict earnings management tactics (Edmans & Manso, 2011).

However, according to a study by (Jayaraman & Milbourn, 2012), stock liquidity can optimize executive managers' stock ownership-based incentives. Therefore, managers are more motivated to use more earnings management techniques to raise short-term stock prices when their ownership of the company's stock rises as a percentage. After putting those procedures into place, this is done in order to sell a bigger percentage of the shares. As a result, rather than limiting or restricting short-term earnings management tactics, an increase in stock liquidity may encourage their use, which would enhance information asymmetry.

In addition to the divergent views of scholars about the effect of accounting conservatism on stock liquidity, this study was conducted to examine the dearth of research in Palestine and Jordan on the subject. Thus, the purpose of this study was to close these research gaps.

#### Information Asymmetry

Information asymmetry occurs when there is an unequal possession of specific information between management and internal parties on the one hand, and external parties on the other. Consequently, management may achieve an abnormal return due to its informational advantage (Al-Sayed, 2005). It is also defined as the possession of information by internal parties, management, or any other party regarding a company's current and future economic performance, to a greater extent than that of external parties such as creditors, investors, analysts, and other market participants (Hala, 2018). It is also defined as the possession of one or more investors of proprietary information about a company's value, while other investors have not yet received this information. Their benefit is limited to public information, which affects their ability to clearly distinguish between actual profits and accounting profits (Shwikar, 2016).

It is worth noting that information asymmetry may occur between parties within the company, on the one hand, and parties outside the company, on the other. For example, information asymmetry occurs when some financial information is available to some

internal investors in the company (owners) with connections, or when company managers are more aware of the company's capabilities, strengths and weaknesses, and future circumstances than other investors and parties outside the company. This means that internal parties with exclusive access to this information exploit this information in a variety of ways, affecting the value of the stock and, consequently, the dividend distribution policy. Meanwhile, other external parties lack this information and only possess basic and important information, which they rely on to make investment decisions. This discrepancy in information between the two parties impacts efficient investment decision-making due to the inefficiency of the stock market (Mahmoudy et al., 2019).

### **1.6.2 Principle of accounting conservatism**

The principle of accounting conservatism is one of the oldest policies in accounting thought, and it is considered one of the most important features of modern financial reporting. It is one of the generally accepted accounting rules that must be included in financial statements. This principle has emerged as one of the most important principles of practical application, especially in light of the multiplicity of options. The accountant chooses the option that is consistent with the conservatism principle (Al-Najjar, 2014).

### **1.6.3 Definition of the principle of accounting conservatism**

The methods of measuring and understanding the principle of accounting conservatism have evolved over the years. Initially, (Zhong & Li, 2016) defined it as disregarding expected profits and providing for all expected losses, a definition that was common at the time. One researcher (Paton, 1948) explained that the concept of accounting conservatism for accountants meant an underestimation of assets and an underestimation of net income through the use of different measurement methods. Meanwhile, (Devine, 1963) focused on linking accounting conservatism to the various objectives of the organization, whether profitability, growth, survival, or community service. Therefore, accounting conservatism was defined as the rule that leads to a reduction in the average expectations necessary to achieve the organization's objectives compared to available

measurement alternatives, according to approved reporting rules.

While in the study (Watts & Zimmerman, 1986) defined conservatism as a rule by which accountants are entitled to report the lower value of assets and the higher value of liabilities according to the available alternatives, and the timing of the recognition of revenues should be delayed compared to expenses.

Basu's (1997) study represents a new era in the development of accounting conservatism, as he proposed a model for accurately and scientifically measuring accounting conservatism. In this study, the author defined conservatism as the tendency of accountants to adhere to a high degree of verification when recognizing good news over bad news in financial statements. The author attributed the existence of accounting conservatism to the asymmetric verification requirements for recognizing expected economic losses and gains in a timely manner. This involves recognizing expected economic losses in the current period, while expected economic gains are recognized in later periods. This concept highlighted the economic role as a determinant of the expression of losses and gains in organizations. He emphasized the importance of timing in recognizing them, which is called conditional conservatism. In this study, Basu presented an effective model for measuring accounting conservatism, which has been one of the most important models for measuring accounting conservatism since then. History so far.

In line with this trend, (Givoly et al., 2007) defined conditional conservatism as the immediate recognition of economic events expected to generate income losses, while deferring the recognition of economic events expected to generate gains. (Watts, 2003) also discussed the concept of conditional conservatism, stating that it is achieved through the asymmetry of the recognition requirements for recognizing gains from losses.

The methods of measuring and concepts of the principle of accounting conservatism have developed over the years. In the beginning, it was known that

Asserts (El-Habashy, 2019) that it is Despite its significance, there is currently no agreed-upon definition of accounting conservatism because other meanings have been proposed, including El-Habashy's concept in a study. The skill of selecting suitable accounting foundations and rules, which, in turn, lower the amount of declared profits by delaying

recognized revenues and accelerating the recognition of expenses. Accounting conservatism, as defined is predicated on the requirement that profits have a higher degree of verification than losses. This makes consistency in confirming profits and losses extremely poor, and as a result, managers' behavior in seizing opportunities deteriorates. Furthermore, according to Abu Hamida, conservatism is the practice of using accounting standards' rules and procedures to report lower asset and income values and greater liability and expense values, so bringing the net book value of property rights below market value. (Abu Hamida, 2017). The accountant tends to obtain a high degree of certainty of profits greater than the degree he needs to confirm losses, as it is also defined as recording losses before they are achieved and recognized in the financial statements, while profits are only recognized when they are achieved and have a document supporting their occurrence (Al-Qudah, 2015).

#### **1.6.4 Motives for accounting conservatism**

The widespread application of conservative accounting practices in many companies around the world has led accounting research to analyze the motives behind companies' adoption of conservative accounting policies and to find logical explanations for accounting conservatism. To understand the justifications for accounting conservatism, a distinction must be made between the behavior of accountants, management, standard-setting entities, and those responsible for monitoring compliance with standards. Management tends to be unconservative in their reporting because their compensation is linked to net profit rather than to future or current net assets. Therefore, managers tend to postpone the recognition of losses and accelerate the recognition of profits to maintain their positions and compensation. As for accountants and the bodies responsible for monitoring standards, they are concerned with applying conservative accounting policies in preparing financial statements (Abu Al-Khair, 2008). The motives for accounting conservatism are represented by four reasons, which can be explained as follows:

##### **1. Contracts**

The contractual motive is considered one of the most important explanations and motivations offered to explain accounting conservatism. This is because it represents one of the means of addressing the problem of moral hazard, which results from information asymmetry between stakeholders and company management. Conservatism helps achieve

efficient management contracts, which are evident in contracts concluded by management, including incentive contracts, management bonuses, and debt contracts. If bonus and incentive contracts are based on net profit, management seeks to maximize its rewards by increasing the company's profits, thereby increasing the percentage of profits it receives as a reward, even at the expense of stakeholders (Kassab, 2011). Therefore, accounting conservatism, which establishes stricter verification controls for recognizing gains compared to those applied to losses, is considered an effective tool for countering opportunistic management behavior (Watts, 2003).

## 2. Lawsuits

Given the shared responsibility of the auditor and company management for the information contained in the financial statements, exaggerating the value of assets or profit may expose the company's management and the auditor to legal accountability. Therefore, the reason behind accounting conservatism, which involves delaying the recognition of gains and accelerating the recognition of losses, may lie in avoiding legal accountability (Watts, 2003). In addition, the risk of exposing company management and auditors to legal accountability represents a motivation for companies to prepare more conservative financial reports (Abu Al-Khair, 2008).

## 3. Tax Considerations

Because income tax is imposed on companies based on net profit, tax considerations may influence management's choices of accounting policies to control the tax burden. By applying the principle of accounting conservatism, company management accelerates the recognition of losses and defers the recognition of gains (Watts, 2003). In the absence of other motives that might prompt management to adopt non-conservative policies, management tends to adopt conservative accounting policies to reduce the tax burden, provided these policies are acceptable to the tax authorities (Abu Al-Khair, 2008).

## 4. Regulatory considerations

This refers to the entities responsible for setting accounting standards, as well as those responsible for monitoring and overseeing companies' compliance with the standards. Because these entities enjoy powers and authority, many stakeholders exert pressure on them to protect their interests by urging companies to implement conservative accounting

policies. Furthermore, professional regulation is one of the reasons for increased accounting conservatism in financial reports (Awad, 2010).

The researcher believes that accounting conservatism is an important tool in the hands of stakeholders, as it supports lenders, investors, and other related parties, because it confronts opportunistic behavior that management may use to withhold information, or to disproportionately maximize its unrealized profits, which leads to a lack of transparency in the published financial reports.

#### **1.6.5 The importance of the principle of accounting conservatism:**

A number of reasons make implementing accounting conservative policies crucial, including:

- Enhancing the level of neutrality provided to clients of financial statements (Awja, 2017).
- Protecting creditors from unrealized payments to shareholders and protecting their rights from management manipulation, as they may employ strategies that increase profits (Al-Khalidi and Abu Al-Jalil, 2021).
- Accounting conservatism also reduces litigation against auditors by shareholders (Al-Sharqawi, 2013).
- Accounting conservatism enables the timely disclosure of bad news, alerting shareholders and investors, and contributing to the realization of power and political pressures within large corporations (Al-Sharqawi, 2013).
- Accounting conservatism increases clients' confidence in financial reports and accounts by sending a signal of high quality. It enhances the quality and credibility of financial reports (Kandil, 2018).
- This principle provides readers of financial statements with assurance that their interests are protected from adverse outcomes, as they discover that conservative accounting data achieves better long-term results (Al-Khalidi & Abu Al-Jalil, 2021).
- it increases the efficiency of accounting information contained in contracts (Al-Sharqawi, 2013).
- It is compatible with tax and investment laws, as its use for tax purposes is considered a means of reducing taxable income by delaying revenue recognition and accelerating expense recognition (Al-Sharqawi, 2013).

- Protecting the interests of shareholders from management that may be inclined to adopt optimistic policies that contribute to inflating profits, as accounting conservatism contributes to improving the quality of accounting information and the quality of accounting profit figures, by reducing opportunistic behavior by management (Al-Rashidi, 2011).

### **1.6.6 Types of accounting conservatism**

When an accountant practices accounting conservatism, they choose accounting methods and policies that result in reporting lower values for assets and revenues and higher values for liabilities and expenses. They also follow a higher degree of verification when dealing with revenues and gains than when dealing with expenses and losses (Qandeel, 2018). Additionally, the measurement types of reservations are:

#### **1. Conditional reservation**

We refer to it as news-based reservation or subsequent reservation. In situations when there is uncertainty, managers and accountants typically use conditional reservation. This kind of news is restricted to both positive and negative developments pertaining to property rights. In other words, book equity loses value when a negative event happens, but its book value does not rise after a positive event (Abu Alia et al., 2020). Additionally, it confirms that there is less negative (unwanted) news than positive news. The great majority of them tend to implement a conditional reservation policy since it supports the efficacy and efficiency of commitment contracts (debt) and corporate governance standards. In this case, conditional reservation is dependent on the anticipated course of events (El-Habashy, 2019).

Examples of a conditional reservation include:

- Inventory is valued at the lower of cost and net realizable value.
- Documenting the depreciation of long-term assets, whether they are intangible or tangible (Abu Alia et al., 2020).

#### **2. Unconditional reservation**

It is also known as "balance sheet conservatism" since it reflects the reduction in book value relative to the values of net market assets (Aminu & Hassan, 2017).

The ability of managers and accountants to select and use the most conservative accounting techniques is necessary for unconditional conservatism (El-Habashy, 2019).

Examples of an unconditional reservation include:

- Accelerated depreciation.
- Recording internal development costs for intangible assets under expenses (Abu Alia et al., 2020).

This classification of accounting conservatism into mandatory and unmandated conservatism is one of the most common. In addition to these classifications, there are other classifications, such as those found in a study of (Al-Rashidi, 2011), which classified accounting conservatism as:

- Mandatory conservatism: This conservatism is based on accounting principles, meaning compliance with the rules, laws, and requirements of a specific accounting organization.
- Voluntary conservatism: This is usually related to internal decisions by the company's management to achieve specific objectives.

Meanwhile, (Lara & Mora, 2004) study classified conservatism into income statement conservatism and balance sheet conservatism. Balance sheet conservatism refers to the permanent decrease in book value below the market value of equity, while income statement conservatism refers to the continuous decrease in profit resulting from the diversity of choices among multiple accounting methods.

The importance of distinguishing between the two types of accounting conservatism

Distinguishing between the two types of accounting conservatism is of great importance, which can be summarized in the following points:

- The different impact of each type of accounting conservatism on the financial statements. The impact of applying conditional accounting conservatism is often not sustainable on the income statement, due to the change and fluctuation in the content and timing of economic news during the same period and from one period to another, while the impact of unconditional conservatism is relative and constant on the income

statement when applying the chosen accounting policy from one period to another (Chen et al., 2014).

- The different impact on the level of investments and contracts in the company, as conditional conservatism can improve the efficiency of investments and contracts by immediately recognizing expected losses in the current period, which leads to restricting the opportunistic actions of management, while unconditional conservatism often does not lead to improving the efficiency of contracts and can distort the financial reports of its users, investors (Cho and Choi, 2016).
- The increasing application of one type of conservatism depends on the economic environment of the establishment, as conditional conservatism increases in a business environment where the cost of litigation and contracts is high, while unconditional conservatism increases in an environment where the cost of regulation and taxes is increasing (Qiang, 2007).

#### Demand for accounting conservatism

The main influence on the level of accounting conservatism is stakeholders, who play a major role in influencing the level of accounting conservatism in companies to meet their interests. The most important of these groups are the following:

- Lenders demand accounting conservatism because corporate lending decisions and monitoring depend on the quality of accounting information. The quality of information depends on two main elements: the degree of similarity of information between management and lenders, and the relevance of accounting information to financial reports. The role of accounting conservatism is to increase the value of accounting information and reduce information discrepancies between borrowers and lenders. Consequently, lenders demand accounting conservatism from borrowing companies to use the accounting information generated from financial reports to monitor the company's financial indicators increases. This in turn enhances the evaluation and monitoring of the company's financial performance (Zhang, 2008).
- Shareholders demand accounting conservatism. The separation of ownership between management and shareholders leads to information asymmetry, which in turn increases the demand for accounting conservatism from shareholders. This mitigates agency problems between management and shareholders, thus allowing investors to

better evaluate the company's future performance, enabling them to closely monitor management's actions, and make the right decisions at the right time (Lafond and Watts, 2008).

- Auditors' demand for accounting conservatism is increasing due to their suffering from information asymmetry, their great responsibility for the reliability and verifiability of financial reporting information, and the possibility of facing significant damage to their reputation and legal risks from shareholders when the company is exposed to the risks of bankruptcy and fraud. This in turn enhances their interest in increasing the level of accounting conservatism for this company, especially after the cases of financial failure that struck many companies such as Enron (Lobo and Zhou, 2006).

#### Objectives of accounting conservatism

The objectives of accounting conservatism can be summarized in the following points (Guay & Verrecchia, 2006):

- Showing the company's true economic profits in accounting reports.
- Maximizing the net benefits of financial reports at the lowest cost.
- Obtaining information about losses and gains included in the financial report.
- Enabling users of financial information to access information that is not asymmetrical in demand.
- Accounting conservatism is one of the most influential principles when conducting accounting evaluations.
- Accounting conservatism is a fundamental characteristic of financial reporting.
- Accounting conservatism provides reassurance to shareholders regarding the accuracy of the company's cost of debt.
- Accounting conservatism enhances the confidence of the accounting data within the financial statements.

### **1.6.7 The concept of stock liquidity**

The stock market is the foundation and backbone of the economy and an important indicator of its strength or weakness through its ability to absorb individuals' savings, as investors make huge investment decisions by purchasing shares to invest in banks and institutions listed in the financial markets. The ease of selling shares is considered one of the general factors that influence the process of making investment decisions, and thus affects investors' tendencies in an optimistic manner to enter markets that enjoy high liquidity (Mahran, 2011).

Stock liquidity is a worrying issue worldwide since the recent global financial crisis. It remains a prominent research topic in the financial literature due to the various benefits that stock liquidity brings to both institutions, financial markets, and investors, from providing liquidity for the cash needed and making investment opportunities available to them easily, in addition to increasing financing opportunities for companies listed on the financial market by encouraging them to offer shares. This means that stock liquidity facilitates the movement of money flowing out and into the market, which helps in attracting capital, whether foreign or local, thus achieving growth and recovery in these markets and positively impacting the economic situation in the country (Ali & Su, 2017).

The concept of stock liquidity varies and varies depending on the economic unit and the nature of the enterprise. Liquidity reflects an enterprise's ability to meet its short-term obligations. This means covering external cash flows with internal cash flows by maintaining a reserve to ensure the ability to face unexpected events such as increased payments or decreased internal cash flows. Stock liquidity is defined as the ability to trade shares at a low cost with little impact on the price, and gives the shareholder the flexibility to sell their holdings when needed (Ilmanen, 2011). And (Fabozzi, 2008) sees it as the conversion of cash-generating assets into a vital internal source of capital, which can support higher trading volume and further development of trading strategies. Stock volatility is also defined as the combination of high trading volume and speed with little impact on the price (Hachmeister, 2007).

In light of the reduced expenses that the investor may incur as a result of the selling process, such as the commission, and the reduction of the difference between the purchase price and the selling price, the liquidity of the stock is defined as the shortening of the

time between offering the shares for sale and the actual execution of the sale (Al-Khawaja et al., 2023). Another study defined liquidity as the availability of buyers and sellers with equal knowledge of the fundamental value of the shares, allowing them to purchase or sell shares at any time and without hesitation. This ultimately affects striking a balance between supply and demand for shares and achieving stability in their price (Noser, 2022), and in the study (Naik et al., 2020) defined it as the ability to trade large quantities of stocks without any delay or at a low cost or taxes or transaction fees with little impact on the stock price. According to the aforementioned, a stock's liquidity can be characterized as its capacity to be traded at a cheap cost with minimal effect on the price, or as its ability to be quickly converted into cash without suffering losses.

### **1.6.8 The importance of stock liquidity**

#### **1.6.8.1 The importance of stock liquidity for investors**

Since investors accept trading stocks that are characterized by high liquidity, the stock's liquidity is crucial to the decision-making process of investors, the stock market, and businesses alike. It helps investors distinguish between available securities and select the best one. This is because they accomplish their own objectives and lower possible hazards. Consequently, a lot of investors turn to dealing with assets and purchasing them at a premium price, provided that they have high liquidity (Lambert et al., 2007).

The study (Al-Mawla, 2011) indicated that the decrease in stock liquidity makes investors participating in the financial market lose confidence in their expectations about future stock prices. Stock liquidity is an important and influential factor for all investors participating in the financial market to help them buy and sell easily, quickly and at the lowest possible cost.

#### **1.6.8.2 The importance of stock liquidity for financial market**

In addition to their significance in the financial market, these companies are known for their high liquidity, which encourages investors to put their money into the financial market rather than other investment avenues because they anticipate a high return on their investment and, consequently, the financial market's recovery. In other words, a decline in information asymmetry, a decline in earnings management, and ultimately the existence of an efficient financial market is all indicated by the stock's liquidity. As a

result, businesses should aim to increase stock liquidity and reduce factors that reduce it (Noser, 2022).

A study by (Abdo, 2021) indicated that stock liquidity is a factor influencing the financial market. This is because companies with high stock liquidity may motivate many investors to invest their money in the stock market instead of other investment options, due to their expectation of a high return as a result of the investment process, which leads to a recovery in the stock market.

#### **1.6.8.3 The importance of stock liquidity for companies**

The importance of stock liquidity in businesses stems from its ability to secure the resources they need when offering their shares for public subscription. Businesses with high stock liquidity have lower costs of equity (Marks & Shang, 2021). Stock liquidity increases the value of the business, as a result of the high stock liquidity that encourages current and potential investors to purchase the business's shares, which in turn raises the stock price and, consequently, the value of the business (Al-Khawaja, 2023).

#### **1.6.8.4 The importance of stock liquidity for economy**

Stock liquidity is of paramount importance to the economy. It is a key factor in predicting future economic conditions. Furthermore, it impacts the efficiency of the financial market, taking into account that efficient financial markets have a positive impact on economic growth (Al-Mawla, 2011). Stock liquidity is considered one of the most important factors in financial markets, because investors believe that liquid securities are more attractive for investment, which positively impacts economic growth.

#### **1.6.8.5 The importance of stock liquidity for Bank**

The bank is responsible for returning deposits to their owners upon request. The bank is also required to cooperate with customers in the event that they request a loan if they have reasons to justify this. The importance of stock liquidity for the bank is highlighted in maintaining financial assets to meet the demand for loans from customers, as there are customers whom the bank considers important, whether they are depositors or borrowers. The bank is keen to meet their requests for loans in order to retain them and achieve profits from their transactions. Therefore, the bank can have the opportunity to purchase

high-quality securities and exploit investment opportunities to provide liquidity on an ongoing basis to meet customer requests (Hassan, 2006).

### **1.6.9 Liquidity characteristics of the stock**

Research has concluded that several traits can be used to estimate and assess how much liquidity stocks possess. These traits include the following:

- Trading time property

This property means the ability to implement and complete transactions between traders in the market as quickly as possible, meaning a reduction in the period of offering shares by investors for sale and the actual implementation of the sale. In other words, the speed property serves as a representation of this property, and the speedier the property is, the more investors can execute buying and selling transactions whenever the stocks are liquid (Al-Khawaja et al., 2023).

- The depth characteristic

This refers to preserving the equilibrium of securities prices by ensuring that there are a sizable number of buy and sell orders available in the market (Noser, 2022). Market depth directly affects trading results and, consequently, market liquidity. Markets have good depth when they are active for a large number of participants in a unit of time, and are weakly traded when they are active for a small number of participants. Therefore, the investor is unable to fulfill and prepare orders sufficiently when buying or selling in large quantities, as executing a large order makes it important to change the market price to accommodate the trading, which means that the order greatly affects the reduction of market liquidity, and the price increases with the trading volume (Morawski, 2008).

- The price margin property

This refers to the potential to purchase and sell the same security with a small difference between the purchase and sale prices, accounting for other expenses that the investor may incur, such as commissions. As a result, there is a direct correlation between the profit margin property and share liquidity. According to (Al-Khawaja et al., 2023), the more this features a security possesses, the lower the investor can endure the cost, which includes the rise in the difference between the buying and selling price as well as the cost of transactions. As a result, the shares will be more liquid.

- The characteristic of flexibility

Ability to buy or sell any number of shares without significantly altering the price—that is, a reduction in the gap between the purchase and sale prices—is known as the flexibility property. The flexibility property denotes the security's capacity to return to its prior normal prices following abrupt changes, and there are According to (Omar et al., 2021), there is a clear correlation between the liquidity of the stock and its flexibility characteristic. The more flexible the security, the fewer the price risks, and as a result, the better the stock's liquidity (Omar et al., 2021).

- The characteristic of breadth

What is meant by breadth is the availability of a large number of buy and sell orders, the multiplicity of their sources, and the large volume of trading resulting from them. On the other hand, the market is small, and the presence of the market's breadth attribute results in comparatively stable pricing, lowering the risk of capital loss exposure. It also It leads to the market maker accepting a modest margin because he would compensate for this with a higher turnover rate of the security, which decreases operational expenses (Al-Amin, 2022).

#### 1.6.10 Stock liquidity levels

High levels of liquidity in stocks indicate greater investor confidence in the financial market, leading to a significant increase in trading volume, thus helping to promote the growth of the overall economic system (Dash, 2009).

A study by (Wyss, 2004) indicated the existence of four levels of common stocks, which can be explained as follows:

Level 1 (inability to trade shares): This level indicates that there is no liquidity in the financial market and that trading cannot take place. There must be at least one attempt to buy or sell in the financial market.

Level 2: This level indicates the possibility of buying or selling a limited number of shares with little impact on the quoted price.

Level 3: This level indicates the possibility of buying and selling a specific number of shares with no impact on the quoted price.

Level 4: This level indicates that transactions from Level 2 to Level 3 are executed immediately, meaning the ability to execute trades immediately.

### **1.6.11 Stock liquidity Measures**

There are various measures of common stock liquidity that can be used to assess its liquidity. Liquidity measures are classified into the following categories (Sarr & Lybek, 2002):

- The first category: Transaction cost measures, which include the costs of trading financial assets in the secondary market.
- The second category: Trading volume measures based on distinguishing market liquidity from transaction volume to price changes, to measure the market's ability to absorb trading and market depth.
- The third category: Measures based on price equilibrium, primarily elasticity.
- The fourth category: Market impact measures, which attempt to reduce the spread between the bid and ask prices, such as high liquidity.

#### **The Relationship Between Accounting Conservatism and Stock Liquidity**

Various studies have addressed accounting conservatism and stock liquidity, including a study by (Kosmidou et al., 2020) examined the relationship between stock liquidity and conditional accounting conservatism in light of economic and political instability and capital movement restrictions. It found that companies that implement accounting conservatism policies rated their reports as higher quality due to increased transparency and reduced information asymmetry, which reduces investor risk. A study by (Cheng et al., 2018) examined the inclusion or exclusion of bad news in measuring stock price based on accounting conservatism and its impact on stock liquidity. The study found that companies with high stock liquidity and high trading volume reduced information asymmetry due to their commitment to accounting conservatism. Furthermore, stock liquidity improves the timing of incorporating bad news and reduces trading costs in the stock market.

## **1.6.12 Explanatory Theories**

### **1.6.12.1 Signal Theory**

To make wise and sensible economic decisions, many parties rely on financial data. According to this approach, management must appropriately communicate information to stakeholders. Consequently, a rise or fall in the stock's market value will impact investors' interest in this information, leading them to either purchase or sell (Abdul Qader & Issa, 2013). Accounting conservatism is a principle that emphasizes caution and prudence in the recognition of revenues and the reporting of assets. It also highlighted that companies may use financial conservatism policies to send certain signals to the market and related parties, which may attract investors to trade in the company's shares, which works to enhance the liquidity of the shares. In general, it entails understating profits and realizing losses sooner rather than later. Even while this could seem paradoxical, businesses can use it as a useful tool to inform the market and draw in investors (Al-Hussein, 2023).

### **1.6.12.2 Agency Theory**

The separation of ownership from control, conflict of interest, risk aversion, and information asymmetry are some of the causes of the agency problem, which has existed since the emergence of joint-stock companies. As a result, companies have turned to conservatism as a solution to the agency problem in order to reduce and limit agency costs. In this approach, managers apply the principle of accounting conservatism to disclose all costs in accordance with the facts, which helps investors believe in what the company stipulates and minimizes misunderstandings between owners and stakeholders. According to this idea, managers are always motivated to set aside money in order to further their own goals and have a good impact on share trading and liquidity (Al-Hussein, 2023). The inherent conflict of interest between managers (agents) and shareholders (principals) is the source of agency costs. Information asymmetry is the root cause of this conflict, as managers know more about the business's operations, prospects, and choices than shareholders do. This informational edge may result in a number of agency issues; by lowering information asymmetry and lining up managerial incentives with shareholder interests, conservative accounting techniques essentially help to level the playing field between managers and shareholders. Conservative accounting makes the capital market more reliable and efficient by encouraging openness and deterring opportunistic activity.

### **1.6.13 Literature reviews**

Accounting conservatism has gained great importance worldwide. Many studies have been conducted to confirm the importance of accounting conservatism policies, including: A study (Sabrina, 2018) entitled "Accounting Conservatism in Light of International Financial Reporting Standards (IFRS)" aimed to examine the importance of practicing accounting conservatism when preparing financial statements. Accounting conservatism is one of the most important controversial and research-based issues in accounting thought, and has been a focus of interest for many academics, researchers, professional organizations, and standard-setters. This concept has become a cornerstone of accounting practice. This concept has been associated with multiple measurement alternatives and uncertainties. This study was conducted to investigate the relationship between international accounting standards and the concept of accounting conservatism, focusing on several standards that address accounting conservatism, given that they incorporate a sense of caution. The study subsequently concluded that the issuance of accounting standards has had a significant impact on the practice of accounting conservatism.

Numerous studies have examined the effects of accounting conservatism on the financial market and listed stocks, such as "The Impact of Accounting Conservatism on the Market Value of the Share" (Al-Bashir, 2022), which examined the effects of accounting conservatism on the market value of the share for all banks registered in the Saudi financial market. The study was analyzed using the historical method to present prior research on the topic, the inductive method to form the theoretical framework and test hypotheses, the deductive method to formulate hypotheses, and finally, the analytical method. Based on the analysis's findings, the study came to the conclusion that there is a connection between the market value of shares of banks listed on the Saudi financial market and accounting conservatism. According to the study, accounting conservatism helps to increase the credibility of financial statements and provides shareholders with assurance regarding the correctness of accounting information. Improving the appropriateness of accounting data in Saudi financial market-listed institutions. Additionally, the study "Analysis of the Relationship between Accounting Conservatism in Financial Reports and the Cost of Capital and Their Impact on the Value of the Establishment" (Saad El-Din, 2014) sought to determine the relationship between

accounting conservatism and the cost of capital as one of the most significant economic effects resulting from the application of conservatism in financial statements, as well as the effect of this relationship on the establishment's value in the financial market. The following findings were obtained from this study, which focused on 32 Egyptian companies that were listed between 2008 and 2012 on the stock exchange: In contrast to the direct relationship between conservatism and establishment value, the degree of conservatism and the cost of capital have an inverse relationship. In addition to recommending that accounting conservatism be included in the conceptual framework for creating financial reports and that businesses be encouraged to implement conservatism policies, the study verified that conservative enterprises were able to hold onto their value after 2011. The impact of accounting conservatism on investment choices has been supported by a few studies, such as "The Effects of Accounting Conservatism on Investment Decisions" (Ma & Jeong, 2022), which examined the relationship between the investment decision-making process in the company, and concluded that conservative companies can prevent ineffective investments. The study showed that there is a negative relationship between accounting conservatism and excessive investment, which means that accounting conservatism, even in a special environment in China, can affect companies and their decisions, which creates other effects and makes researchers focus on it more.

And a study (Fouda, 2017) entitled "The Relationship between Stock Liquidity and Earnings Management: An Experimental Study on Companies Listed on the Egyptian Stock Exchange". This study aimed to investigate the causal relationship between stock liquidity (expressed as the relative price margin or range and trading volume) and the application of earnings management practices. The study was conducted on a sample of 101 companies listed on the Egyptian Stock Exchange. The total observations amounted to 1,313, covering the period from 2004 to 2016. The study relied on the Stata statistical analysis program based on a fixed-effects model, running the study's regression models using the single-stage least squares method and the two-stage least squares method. This was used to conduct the Hausmann test to ensure that the independent variable is not associated with random error, which in turn may reflect its lack of influence on the dependent variable. The researcher concluded that there is a causal relationship between stock liquidity, expressed as the relative price margin or range and trading volume, and

earnings management. The study emphasized that stock liquidity is one of the most important incentives that may push management towards expanding or limiting the application of earnings management, whether through actual activities or through accruals, as applied to the Egyptian context.

Also, a study (Hamad, 2018) entitled "The Role of Conditional Accounting Conservatism in Reducing Earnings Manipulation Practices and Its Impact on the Efficiency of Investment Decisions" examined the importance of accounting conservatism and its role in reducing earnings manipulation, whether using accruals or real activities. It also aimed to evaluate the impact of the level of accounting conservatism on excessive investment activities, applying it to a sample of Egyptian companies listed on the financial market. The study subsequently concluded that the higher the accounting conservatism in the financial statements, the more significant the decline in earnings manipulation using accruals. Meanwhile, the study concluded that there is an insignificant positive effect between increasing the level of conservatism and earnings management using real activities. This was interpreted as an indicator of the continuation of attempts to manage earnings using real activities as an alternative to earnings management using accruals in the event of an increase in the level of conservatism in companies. The study also concluded that the more conservative Egyptian companies are able to limit excessive administrative investments, thus achieving investment efficiency in Egyptian companies.

Other research has examined the relationship between accounting conservatism and financial performance. For example, the study "The Impact of Accounting Conservatism on Financial Performance" (Abed & khudair, 2022) examined how accounting conservatism affects the quality of accounting information as well as the quality of financial and accounting performance. The results of this study, which was carried out on a sample of banks that are listed on the Iraq Stock Exchange, showed a relationship between the quality of accounting conservatism and its application. Accounting information: In order to lower the level of risk, the accountant typically recognizes expenses and postpones the recognition of unearned revenues. It also highlighted how accounting information can improve and adjust expectations about assets, liabilities, expenses, and revenues. Furthermore, the study "The Effect of Accounting Conservatism on the Financial Performance of Industries in the Financial Sector Listed in the Indonesia Stock Exchange" (Leon & Hendrawan, 2020) sought to determine how accounting

conservatism and firm size affected financial performance metrics that gauge return on equity, return on assets, and share price. A multiple linear analysis of a sample of 61 financial sector companies listed on the Indonesia Stock Exchange served as the basis for the analysis. The findings showed that while accounting conservatism has no discernible effect on return on assets (ROA), it significantly affects profits per share (EPS) and market prices of banking sector companies. Investors that use information as a reference before making an investment can benefit from the consequences of this study. The rate of return on investment can be raised by accounting conservatism policies in corporate financial reporting and company size. To boost earnings per share (EPS) and stock market values, business management should increase the degree of accounting conservatism in financial reporting. and in the study (Ahmed, 2021) entitled "Accounting Conservatism and Its Impact on Financial Performance Evaluation Indicators of Saudi Banks (An Analytical Applied Study)," this study primarily aimed to evaluate and measure the practice of accounting conservatism on financial performance in its dimensions (return on equity, return on assets, and market value of the share), by applying it to Saudi banks through analyzing the financial reports of Saudi banks. The study relied on the market value to book value model to measure accounting conservatism, and focused on financial ratios to measure the dimensions of financial performance. It later concluded that the interest of Saudi banks in practicing accounting conservatism in financial reports positively affects improving the financial performance of these banks, by increasing the return on equity, return on assets, and market value of the share in the financial markets. The study recommended the need for Saudi banks to focus on taking into account the banking business requirements for practicing accounting conservatism to ensure the quality of financial reports.

The level of accounting conservatism in the Palestinian market has been examined in other studies. "Measuring the degree of accounting conservatism when preparing the financial statements of service companies listed on the Palestine Stock Exchange and explaining its impact on the dividend distribution policy" is one example of a study (Al-Taweel, 2021), The purpose of this study is to determine and quantify the level of accounting conservatism used in the preparation of the financial statements of service-related businesses that are listed on the Palestine Stock Exchange. It also seeks to elucidate how accounting conservatism affects dividend distribution policies. The

analysis was carried out on a sample of eleven companies between 2014 and 2018. The descriptive analytical approach was used in the study since it was appropriate for the study. According to the findings, service businesses listed on the Palestine Stock Exchange do not follow accounting conservatism in their financial reporting; instead, they follow it, albeit in a limited way. Additionally, despite their decision to distribute income, the corporations have not paid out cash dividends for years.

The impact of accounting conservatism on information asymmetry has been the subject of other research, such as "The Effect of Conditional Accounting Conservatism on Information Asymmetry: An Experimental Study on a Sample of Service Companies Listed in Arab Financial Markets" (Al-Tawil & Shaheen, 2017). The purpose of this study is to examine how conditional accounting conservatism affects information asymmetry as a measure of decision benefit in a sample of Gulf financial markets-listed service companies. This study relies on the (Khan & Watts, 2009) methodology to quantify the extent of accounting conservatism, and on the High-Low Spread scale to measure information asymmetry, using annual financial statement data and trading bulletins for the period from 2007 to 2015. The study's findings demonstrated that conditional accounting conservatism is used by the companies under investigation and that information asymmetry is lessened by adhering to accounting conservatism principles. The study's findings supported the idea that accounting conservatism helps investors make better decisions.

Other studies focused on the function of accounting conservatism and its impact on stock liquidity, including research by (Lalbar et al., 2013) entitled "The study of the relationship between conservatism in financial reporting and stock liquidity." The purpose of this study was to look into the connection between stock liquidity and financial reporting conservatism. A sample of 70 industrial businesses that were listed on the Tehran Stock Exchange between 2003 and 2010 were the subject of this study. The number of trading days, number of transactions, stock trading volume, value of traded shares, free float ratio, stock turnover, trading waiting time, stock to flow ratio, stock illiquidity ratio, absolute bid-ask spread, and relative bid-ask spread were among the measures of stock liquidity that were examined for the study's purposes in order to determine the relationship between conservatism in financial reporting and these metrics. The study's findings and the broad consensus indicate that there is no meaningful correlation between stock liquidity metrics

and financial reporting conservatism. This indicates that the company's information risk is unaffected by conservative reporting of income and expense items, and that stock liquidity is not significantly impacted either. Thus, it can be said that management's method to reporting financial statement items have little effect on stock flow in the Iranian capital market. Furthermore, the study "The Impact of Financial Analysts' Coverage on Stock Liquidity in Light of Accounting Conservatism Policy - An Applied Study on Companies Listed on the Egyptian Stock Exchange" (Jamil, 2022) is also included. This study uses unconditional accounting conservatism as an intervening variable to quantify how financial analysts' coverage affects stock liquidity. The OLS least squares approach and the fixed and random effects method were used to arrive at the study's conclusions. A direct relationship between liquidity and the convergence of investors' expectations regarding the stock's future is evident from the study's findings that there is an optimal level of the relationship between financial analysts' coverage and the liquidity index and trading volume. Any deviation from this level will have a negative impact on the stock's liquidity as measured by these metrics. The degree of unconditional accounting conservatism is positively impacted by the coverage of financial analysts; hence, the more financial analysts cover a firm, the more secret reserves it maintains as a measure of accounting conservatism. Lastly, all liquidity metrics are significantly impacted indirectly by unconditional accounting conservatism as determined by market value to book value. and the study "The impact of financial conservatism on stock liquidity, and its reflection on investment efficiency" (Al-Hussein, 2023). This study, which was carried out on a sample of 80 companies listed on the Egyptian Stock Exchange between 2012 and 2021, aims to measure the impact of financial conservatism on investment efficiency on the one hand and investigate the impact of financial conservatism on investment efficiency through stock liquidity as an intervening variable on the other. The findings of the study demonstrated that the use of financial conservatism policies by companies has a significant positive effect on stock liquidity, and stock liquidity has a significant positive effect on investment efficiency, in addition to the existence of a significant positive effect of companies' use of financial conservatism policies on investment efficiency through stock liquidity.

In addition to the study (Al-Hassanein, 2019) entitled "The Impact of the Degree of Disclosure of Future Information on Stock Liquidity: An Applied Study on Companies

Listed on the Egyptian Stock Exchange", which aimed to test and measure the impact and degree of disclosure of future information on stock liquidity for companies listed on the Egyptian Stock Exchange. To measure the degree of disclosure of future information, the study relied on an index prepared by the researcher that is suitable for the Egyptian environment. It relied on previous studies and relevant laws and regulations in Egypt. The researcher relied on the content analysis method to extract the number of actual disclosure items of future information for each company in the sample. For statistical analysis, the study used simple regression analysis, according to the Evios program, to test the relationship between the degree of disclosure of future information and stock liquidity. Company size and financial leverage were controlling variables, to determine the impact of these variables on the basic relationship between the degree of disclosure of future information and stock liquidity. The study concluded that there is a significant relationship between the degree of disclosure of future information and stock liquidity. It also concluded that company size negatively affects the relationship between the degree of disclosure of future information and stock liquidity, and that financial leverage positively affects the relationship between the degree of disclosure of future information and stock liquidity.

And (Al-Shaarawy, 2023) study entitled "The Impact of the Level of Governance Information Disclosure on Reducing Information Asymmetry: An Applied Study on Companies Listed on the Egyptian Stock Exchange" aimed to verify the level of governance information disclosure and its role in reducing information asymmetry in application to companies listed on the Egyptian Stock Exchange. The study was conducted on a sample of 35 non-financial companies listed on the Saudi Stock Exchange for the period from 2018 to 2020. The study concluded that the sample companies are committed to disclosing governance information, and confirmed the existence of a significant inverse correlation between the level of governance information disclosure and information asymmetry.

#### **1.6.14 distinguishes this study from previous studies**

In addition to focusing on companies listed on the Palestine Stock Exchange and the Amman Stock Exchange, our study is regarded as an addition to previous studies in Palestinian and Jordanian society because, to the best of the researcher's knowledge, it is one of the few that discusses accounting conservatism and stock liquidity. Additionally,

the data used in previous studies differed in that it selected data for the years 2009–2022, and a new methodology based on the correlation matrix and GMM model was used to test the study hypotheses and arrive at the study results.

#### **1.6.15 Hypothesis development**

According to the studies (Kosmidou et al., 2020), the connection between conditional accounting conservatism and stock liquidity was investigated in the context of austerity periods, capital movement limitations, and political and economic instability. The study came to the conclusion that because of greater transparency and less information asymmetry, businesses that practice accounting conservatism are thought to provide reports of higher quality. The researcher in this study highlights that investors face less risks as a result, leading to a shift towards quality. Palestine was the main emphasis because of its political and economic issues.

Additionally, a study by (Chang et al., 2017) examined how accounting conservatism policy affects stock liquidity and whether negative news should be included or excluded when calculating stock price. According to the study, businesses that stick to accounting conservatism and have larger trading volumes and stock liquidity have fewer problems with information asymmetry. Additionally, stock liquidity lowers trading costs in the stock market and enhances the timing of adverse news incorporation.

Based on the aforementioned, the study's main hypothesis is that accounting conservatism improves stock liquidity in Jordanian and Palestinian publicly traded enterprises.

# **Chapter Two**

## **Study Methodology**

### **2.1 Introduction**

This study includes annual data (cross-sectional/time series) for 202 companies listed on the Palestine Stock Exchange and Amman Stock Exchange from 2009 to 2022. In addition to books, periodicals, and earlier research, the study uses secondary sources to gather data, such as the annual reports of businesses registered on the Amman and Palestine Stock Exchanges. In addition to stock liquidity as a dependent variable, this study will concentrate on accounting reservations as an independent variable, which is calculated by dividing the market value by the book value because it indicates the conservative accounting stance. To lower the mistake rate, a few factors were considered to be controlled, such as the company's size and liquidity, financial leverage, return on assets, nationality, and type of the company.

### **2.2 Study Population**

The population of this study consists of all companies listed on the Palestine Stock Exchange (49) and the Amman Stock Exchange (161). For the period from 2009 to 2022.

### **2.3 Study Sample**

The study sample was chosen based on a number of criteria, such as the following:

- The business needs to be listed on either the Amman or Palestine Stock Exchanges.
- In order for all of the companies' annual reports to be accessible, it must have been listed on the stock exchange at least a year prior to 2009.
- The business must continue to operate during the study period, which means it cannot halt operations for a year.
- that neither bankruptcy nor liquidation have been applied to it.

Because they were newly listed, we did not include companies like Al-Safa Bank Company, Arkan Real Estate Company, Ibn Sina Specialized Hospital Company, and Amlak Real Estate Investment and Trade Company that were listed on the Palestine Stock Exchange because we did not have annual reports for them for all of the study's years. to reach the Palestine Stock Exchange's total number of listed businesses (45).

## **2.4 Study Variables**

### **2.4.1 Dependent variable**

#### Share Liquidity

The study's dependent variable, stock liquidity, measures how easily and extensively stocks can be traded on the financial market. A number of metrics and indicators are used to gauge stock liquidity, such as (Gopalan et al., 2012):

- Trading volume, which is expressed in shares per year, is the total number of shares exchanged over a given time period.
- Financial liquidity: This indicates how rapidly the market can take in cash transfers and traded funds. The cash turnover ratio is typically used to measure it. It represents the relationship between the market value of shares and the cash value of traded funds and is computed by dividing net sales by average accounts receivable.
- The market and the presence of supply and demand marketplaces in various markets can be used to gauge how easy it is to buy or sell market shares (Fang et al., 2014).
- The average holding period is the amount of time that investors hold onto their stock before purchasing or disposing of it on the open market. Days are used to quantify it.
- To ascertain the level of stock liquidity in each firm and the market as a whole, these indicators and metrics are calculated using financial and commercial data on companies listed on the Jordanian and Palestinian stock exchanges and statistically examined (Le & Gregoriou, 2020).

### **2.4.2 Independent variable**

#### Accounting conservatism

The variable being examined in this study is accounting conservatism, which (Basu, 1997) defines as a collection of accounting practices or policies that cause the net value of accounting assets to be skewed downward in comparison to the net value of economic assets. The primary models presented for gauging accounting conservatism are as follows:

Several approaches and models have been proposed to evaluate accounting conservatism. The most crucial techniques consist of:

### 1. Market Value/Book Value Model

This technique was created by (Ohlson, 1995) to evaluate accounting conservatism. This approach highlights that in conservative businesses, market value exceeds book value. This model states that the goal of accounting conservatism is to lower the company's book value and profits rate. As a result, conservative measures are taken to lower the company's book value. Consequently, the company's market value will surpass its book value (Jeffrey & Dan, 2005).

A technique for assessing accounting conservatism based on the Book-to-Market Ratio was introduced by Ryan and Beaver in 2000. The more accounting conservatism is used, the lower this ratio is than one. By figuring out the market value to book value ratio, the idea may be used in reverse. In this instance, the company's level of accounting conservatism increases with the Market-to-Book Ratio (Beaver & Ryan, 2005).

This method's capacity to evaluate the level of accounting conservatism throughout a time period or in a particular year is one of its noteworthy qualities. According to a study by (Abu Alia et al., 2020), this assessment approach takes into account both forms of conservatism. But this approach is criticized because higher monopolistic returns and growth opportunities—future profits not recorded in accounting but represented in the market's rise in market value—can drive market value to surpass book value.

### 2. The Accruals Model

A study by (Givoly & Hayn, 2000), which showed that accounting conservatism results in negative non-operating accruals, served as the foundation for the Accruals Model. Because revenue recognition is delayed and loss recognized is accelerated, these accruals build up over time. The difference between operating cash flows and net income before depreciation is used to calculate total accruals (Shahin, 2011).

The total accruals can be further separated into non-operating accruals, which are impacted by management's choice of accounting policies (calculated as the difference between total accruals and operating accruals), and operating accruals, which are associated with the business's daily operations (calculated by changes in accounts

receivable, inventory, and other current assets minus changes in accounts payable and other current liabilities). A higher level of accounting conservatism has been observed to be indicated by an increase in the value of non-operating accruals (Shahin, 2011).

Non-operating accruals only reflect conditional conservatism, not unconditional conservatism, according to (Zang et al., 2008), despite a study by (Givoly & Hayn, 2000) showing that they reflect both conditional and unconditional conservatism. But according to research by (Xie et al., 2015), total accruals—rather than just operating accruals—reflect both forms of conservatism. As suggested by (Qiang, 2007), this was predicated on the separation of total accruals into unrealized profits and losses (coming from conditional conservatism) and current accruals and depreciation (resulting from unconditional conservatism).

Although the Accruals Model is a readily applicable model that may be used for a particular business, it has a number of disadvantages. These include the inability to accurately distinguish accruals from conditional conservatism versus those from unconditional conservatism, the omission of depreciation expense from accrual evaluations, and the possible inability to quantify conservatism as a result of rising depreciation expense (Shahin, 2011).

According to the study (Abu Alia et al., 2020), the accrual model-based calculation approach can be summed up as follows: it is computed and measured using three primary terms: Total accruals before depreciation, operating accruals, and non-operating accruals. Where:

$(\text{Net income} + \text{depreciation}) - \text{Cash flows from operating activities} = \text{Total accruals before depreciation.}$

$\text{Change in accounts receivable} + \text{change in inventory} + \text{change in prepaid expenses} + \text{change in accounts payable} + \text{change in tax accruals} = \text{Operating accruals.}$

$\text{Total accruals before depreciation} - \text{operating accruals} = \text{non-operating accruals.}$

Since accruals are used to postpone revenue recognition and advance loss recognition, it can be said that non-operating accruals and accounting conservatism are inversely related; that is, if operating receivables decline, accounting conservatism rises. According to (Abu

Alia et al., 2020), the establishment's decision to embrace accounting conservatism is contingent upon the net profit being lower than the cash flows from operations.

### 3. The Accounting Profit and Stock Returns Model

One of the first models created to gauge accounting conservatism was the one created by (Basu, 1997). It focuses on the connection between stock returns and accounting profit. This model states that while bad news has a greater impact on stock returns than on accounting profit, good news has a greater impact on accounting profit.

Basu discovered that people react more quickly to bad news, which has a negative impact on stock returns, than to good news, which has a favorable impact. According to (Shahin, 2011) this responsiveness asymmetry is a sign of accounting conservatism in financial reporting (Shahin, 2011).

Nevertheless, this paradigm has a number of drawbacks that restrict its use. Among these drawbacks is the Basu model's dependence on statistical estimation of regression coefficients, which makes it impossible to gauge a given firm's accounting conservatism. Furthermore, the model is unable to quantify general conservatism; it can only measure conditional conservatism. Furthermore, because stock price data is unavailable for other kinds of businesses, the model can only be used to publicly traded companies. Another critique is that it makes the assumption that markets are efficient (Jeffrey & Dan, 2005).

By adding a number of business-specific factors that can affect accounting conservatism, such as firm size, leverage ratio, and market-to-book ratio, Khan and Watts created a model based on the (Basu, 1997) model (Khan & Watts, 2009). This made it possible to measure a single company's conditional accounting conservatism across a given time period using the modified Basu model from 1997. Even if the updated model addressed one issue, there are still a number of issues with it.

### 4. Cash Flow Model

The premise behind this model is that differences in when gains and losses are recognized within the same organization would show up in receivables. Losses are promptly recorded when accounting conservatism is applied, which lowers the reported profit for the business. On the other hand, this helps to create unrecognized receivables that have no impact on cash flows. Contrariwise, earnings are only recorded once they are earned,

which has an unavoidable impact on cash flows but has no effect on receivables. The relationship between operating cash flows and operating receivables has been calculated using an equation (Rashwan, 2019).

The regression equation for this model is as follows:

$$ACC_t = B_0 + B_1DCFO_t + B_2CFO_t + B_3DCFO_t * CFO_t + E_t$$

Where:

ACC: Operating receivables of the company in year t.

DCFO: Dummy variable, taking a value of 1 if operating cash flows are negative and 0 for any other value.

CFO: Operating cash flows of the company in year t.

E<sub>t</sub>: Random error.

The study has shown that when a company adopts conservative accounting policies, the coefficient B<sub>3</sub> takes a positive value.

This model has a number of shortcomings in spite of its simplicity and independence from market indicators. The fact that operating cash flows don't represent good or bad news is the most important of these disadvantages. Furthermore, this model is criticized for only taking operational profits into account and failing to account for non-operating profits (Rashwan, 2019). According to the previously said, there are various models for assessing accounting conservatism, and each has disadvantages of its own. Consequently, the onus is on the researcher to identify the model that best fits their study problem and best accomplishes their goals. Since the market-to-book ratio model is the most suitable for accomplishing the goals of our investigation, we will employ it.

### **2.4.3 Control Variables**

To improve the study's capacity to explain the dependent variable, stock liquidity, a number of control factors have been included. The control variables are as follows:

#### **Return on Assets**

The profitability rate of the business is shown by this variable. Accounting conservatism has a negative relationship with profitability, which could impact stock liquidity, claim (Al-Jazzar & Al-Baramawi, 2022). The ratio of profit to assets can be used to measure this variable.

#### **Liquidity**

One of the financial indicators that has a significant impact on investors' desire to purchase company stock is liquidity. This, in turn, may have a positive impact on the shares' liquidity by boosting investors' trust in the company's ability to fulfill its commitments, which makes trading easier. A number of measures, including the quick liquidity ratio, cash liquidity ratio, and current ratio, can be used to gauge the company's liquidity (Gopalan et al., 2012).

#### **Financial Leverage**

Indicators of debt are represented by financial leverage. According to (Al-Jazzar & Al-Baramawi, 2022), a firm's increased reliance on debt raises its risks, which could influence investors' desire to buy company stock and, in turn, stock liquidity.

#### **Company Size**

One of the factors that greatly affects investors' interest in purchasing company shares is firm size, which also has an impact on investor confidence. The natural logarithm of the company's total assets is used to calculate this variable (Rashwan, 2019).

#### **Firm Nationality**

This attribute allows us to identify if the company is Palestinian or Jordanian.

#### **Firm Type**

We can identify the sort of company—financial or non-financial—by using this attribute.

Corona

The number is 1 for the year 2021 and 2020 and the rest of the years are zero.

These control variables will be incorporated into the study to examine their potential impact on stock liquidity, in the Palestinian and Jordanian public shareholder companies.

**Table 2.1**  
*Summary of the adopted measurement methods*

Measure	Variable Type	Variable
Market Value/Book Value Mode	Independent	Accounting conservatism (AC)
Trading Volume	Dependent	Share Liquidity (SL)
Profits ÷ Total Assets	Control	Return on Assets (ROA)
Current Assets/ Current Liabilities	Control	Company Liquidity (CL)
Total Liabilities / Total Equity	Control	Financial Leverage (L)
LOG(Total Assets)	Control	Firm Size (FS)
The number is 1 for the year 2021 and 2020 and the rest of the years are zero.	Control	Corona(COV)
Dummy variables (1 if Jordanian, 0 Palestinian firm)	Control	Firm Nationality (FL)

Linear Equation

$$SL = B_0 + B_1AC_{it} + B_3ROA_{it} + B_4CL_{it} + B_5L_{it} + B_2FS_{it} + B_6COV_{it} + B_7FL_{it} + E$$

## 2.5 Statistic Measurement

This study will employ the following statistical techniques:

1. Descriptive Statistics: We will present a number of statistical measures, such as the mean, maximum, and minimum values for every variable, through this process. These metrics provide a summary of the data's properties.
2. Correlation matrix: This method helps in determining the degree of association between variables, and allows us to evaluate the strength of the relationships between variables. It shows the relationship between variables in terms of direction (positive or negative) and strength (from 0 to  $\pm 1$ ), where proximity to  $\pm 1$  indicates a strong relationship.

3. Multiple Linear Regression: This test used to test and examine the study hypotheses, to confirm the relationships between the dependent and independent variables, and to determine their statistical significance.
4. Hausman Test: This test determines the appropriate choice for multiple linear regression analysis, so that the random effects model or the fixed effects model will be chosen, based on the probability value or level of significance (probability) of (Chi-Square). If its value is less than 5%, the fixed effects model is used, and if it is greater than 5%, the random effects model is used.
5. The GMM model to evaluate the impact of the independent variable on the dependent variable, which is the accounting conservatism on the liquidity of shares of companies listed on the Palestine Stock Exchange and the Amman Stock Exchange, The GMM model was estimated using the lagged differences in the predictor variables as tools. This model was used to deal with potential problems such as autocorrelation and regression due to unobserved variables.

## **Chapter Three**

### **Results and Discussion**

#### **3.1 Introduction**

The analysis and findings derived from secondary data are presented in this chapter. Accounting conservatism is the independent variable, stock liquidity is the dependent variable, and return on assets, company liquidity, financial leverage, and company size, in addition to the Corona variable, are the control variables. The study's objective is to empirically analyze the impact of accounting conservatism on the stock liquidity of companies listed on the Palestine Stock Exchange and the Jordan Stock Exchange between 2009 and 2022. The first segment, which covers descriptive statistics, reflects the chapter's structure, while the second section covers regression analysis along with the GMM test.

#### **3.2 Descriptive Statistics of the study variables**

Table No. (2) shows the descriptive statistics of the study variables from 2009 to 2022 for the study sample companies, which are companies listed on the Palestine Stock Exchange and the Amman Stock Exchange throughout the study period. The (AC) ranges between 22.7 and 0.002, with an arithmetic mean of 1.33 and a standard deviation of 1.107. These high percentages indicate a significant variation in the conservative policies among listed companies, and the P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. As for the (SL), It ranged between 359,000,000 and 0, with an arithmetic mean of 7,098,373, and a standard deviation of 22,132,054. A wide range indicates a wide variation in the liquidity of companies, which may reflect differences in trading volume and investment interest, and The P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. The (ROA) ranged between 3.82 and -4.83, with an arithmetic mean of 0.0122, and a standard deviation of 0.14, and the P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. The (CL) ranged between 934.1 and 0.007, with an arithmetic mean of 6.32, and a standard deviation of 36.04, and the P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed, the ranged(L) between 584.7 and 0, and the arithmetic mean was 2.07, with a standard deviation of 15.7, and the P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. As

for the (FS), it ranged between 24.64 and 11.82, and the arithmetic mean was 17.4, and the standard deviation was 1.87. The P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. (FN) it ranged between 1 and 0, and the arithmetic mean was 0.79, and the standard deviation was 0.40. The P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. (FT) it ranged between 1 and 0, and the arithmetic mean was 0.66, and the standard deviation was 0.47. and the P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed. (COV) it ranged between 1 and 0, and the arithmetic mean was 0.14, and the standard deviation was 0.35. The P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed.

**Table 3.1**  
*Descriptive analysis of the study variables*

	AC	SL	ROA	CI	L	FS	FN	FT	COV
Mean	1.335585	7098373	0.012288	6.321934	2.078023	17.4552	0.793474	0.660363	0.144234
Median	1.103159	281523	0.01345	1.600069	0.473773	17.23643	1	1	0
Maximum	22.73825	359000000	3.824032	934.1964	584.7513	24.64723	1	1	1
Minimum	0.002751	0	-4.83283	0.007751	0	11.82809	0	0	0
Std. Dev.	1.107872	22132054	0.146132	36.04625	15.74452	1.872798	0.404887	0.473674	0.351392
Skewness	7.019019	7.15048	-7.3704	17.83692	33.87445	0.714131	-1.44993	-0.67723	2.025267
Kurtosis	105.8666	77.11754	623.7727	385.4121	1208.484	3.706302	3.102291	1.458641	5.101706
Jarque-Bera	1.21E+06	640304.6	43329104	1.66E+07	1.64E+08	285.297	946.1557	473.1383	2340.096
Probability	0	0	0	0	0	0	0	0	0
Observations	2697	2697	2697	2697	2697	2697	2697	2697	2697

### 3.3 Results of linear correlation matrix analysis

We chose the correlation analysis test to detect the problem of multicollinearity between variables and measure the strength and direction of the relationship. Table 3 shows the correlation between variables. According to Damodar N. Gujarati, a serious multicollinearity occurs if the correlation coefficients exceed 80%. It is clear from Table 3 that there is no problem of multicollinearity between variables because all ratios were less than 80% (Gujarati, 2003). We note that the correlation between (AC) and (SL) is positive, meaning that the more (AC) increases, the more (SL) increases, and that the correlation between (FS) and (SL) is positive, meaning that the larger the (FS), the higher the (SL). The (FN) and (SL) are also positively related to (SL), while the type of company is positively related to (SL). While the relationship between (ROA) and (SL) was negative, meaning that when (ROA) increases, (SL) decreases. The same applies to (CL), (L), and (COV), as each of these controlling variables is negatively related to (SL). These results were drawn based on the fact that the correlation matrix shows the relationship between variables in terms of direction (positive or negative).

**Table 3.2***Results of linear correlation matrix analysis of study variables*

	AC	SL	ROA	CL	L	FS	FN	FT	COV
AC	1								
SL	0.08673	1							
ROA	-0.04448	-0.07653	1						
CL	0.012774	-0.02434	0.004191	1					
L	-0.05916	-0.01395	-0.06208	-0.01842	1				
FS	-0.01632	0.055583	0.129981	-0.15153	0.108548	1			
FN	0.092142	0.073213	-0.05528	0.046273	-0.00726	-0.10076	1		
FT	0.023989	0.021449	0.031348	-0.01174	-0.05503	-0.27736	-0.01582	1	
COV	-0.00499	-0.12256	-0.01541	-0.02254	0.033695	0.011824	-0.01737	0.004721	1

**3.4 results of the regression model**

In Table (4), the results of the basic random regression model are shown. It is clear that (AC) is statistically significant because it reached 0.0001, which is less than the significance level of 0.05, and (ROA) is statistically significant because it reached 0, which is less than the significance level of 0.05, and (FS) is statistically significant because it reached 0, which is less than the significance level of 0.05. Because larger companies enjoy greater confidence from investors, which increases the liquidity of their shares, and (FN) is also statistically significant because it reached 0.0003, thus it is less than the significance level of 0.05. It may reflect the impact of the different economic and regulatory environments between Palestine and Jordan on stock liquidity, and (FT) is statistically significant because it reached 0.01, which is less than the significance level of 0.05. In addition to the (COV), which is statistically significant because it reached 0, which is less than the significance level of 0.05, the results showed that both (CL) and (L) are not statistically significant because they are less than the significance level of 0.05, as each of them reached, respectively, 0.361 and 0.368.

**Table 3.3***Estimates of regression results*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-16332191	4606288	-3.54563	0.0004
AC	1506076	380331.6	3.959902	0.0001
ROA	-12913962	2909302	-4.43885	0
CL	-10595.06	11771.27	-0.90008	0.3682
L	-24553.01	26873.6	-0.91365	0.361
FS	1049822	240610.7	4.363155	0
FT	2218238	924336.1	2.399817	0.0165
FN	3814555	1045125	3.649856	0.0003
COV	-7769894	1191639	-6.52035	0
R-squared	0.039913	Prob(F-statistic)	0.000	

### 3.5 Study hypothesis test result

After conducting the regression analysis, it appears that there is a statistically significant effect of accounting conservatism on the liquidity of shares of companies listed on the Palestine Stock Exchange and the Amman Stock Exchange because the regression analysis of (AC) reached 0.0001, which is less than the significance level of 0.05. and this relationship is positive because the correlation matrix between (AC) and (SL) is positive, meaning that the more (AC) increases, the more (SL) increases. Therefore, we accept the null hypothesis, which is that there is a positive effect of accounting conservatism on the liquidity of shares of companies listed on the Palestine Stock Exchange and the Amman Stock Exchange. This was confirmed by the study (AL-Hussein et al., 2023), which confirms the positive moral effect of accounting conservatism on stock liquidity.

### 3.6 Results of the GMM panel model

Table No. (5) shows the results of the GMM panel model, compared with the results of the regression model in Table No. (4). The results of the GMM only agreed with the result of accounting conservatism in that its effect is statistically significant, in addition to the Corona variable, while the rest of the variables are not statistically significant. According to this model, the results are shown in Table No. (5) Estimates of GMM model results.

**Table 3.4**  
*Estimates of GMM model results*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SL(-1)	0.602621	0.014298	42.14607	0
AC	2085776	897693	2.323485	0.0202
ROA	-3042193	14006512	-0.2172	0.8281
CL	-3151.77	11580.25	-0.27217	0.7855
L	308222.6	212283.2	1.451941	0.1466
FS	-63338.1	107637.5	-0.58844	0.5563
FN	-21561.2	744547.8	-0.02896	0.9769
FT	495993.9	682728.6	0.726488	0.4676
COV	-5570655	2219948	-2.50936	0.0122

## **Chapter Four**

### **Summary and conclusions**

#### **4.1 Introduction**

The primary goal of this study is to examine how accounting conservatism affects the liquidity of shares of companies that are listed on the Amman Stock Exchange and the Palestine Stock Exchange, as was covered in the first chapter. The information was taken from the 2009–2022 annual reports of businesses that were listed on the Amman Stock Exchange and the Palestine Stock Exchange.

#### **4.2 Summary**

In order to ascertain the degree of agreement or disagreement between the findings of earlier investigations, this section of the research attempts to supply rational explanations and arguments in favor of the conclusions drawn. (Al-Hussein, 2023) found that accounting conservatism has a statistically significant positive impact on stock liquidity. This means that the higher the AC, as determined by the market value to book value ratio, the higher the stock liquidity. This study supports the positive moral impact of accounting conservatism on stock liquidity. This indicates that the more accounting conservative laws are implemented, the more preparation is impacted because it is a cautious response to make sure that required risks and uncertainty are adequately taken into account, which affects the preparation of financial statements and increases investor confidence, thus affecting stock liquidity by increasing.

the signal theory confirmed that companies may use financial conservatism policies in order to send certain signals to the market and related parties, which may attract investors to trade in the company's shares, which works to enhance stock liquidity, in addition to the agency theory, as this theory confirmed that there is always an incentive for managers to reserve cash and retain to achieve personal interests and positively affect stock liquidity and trading.

The results of the study revealed that the ROA measured by dividing net profit by total assets has a negative effect on SL, but it is not statistically significant. (L), which was measured by dividing total liabilities by total equity, is negatively related to stock liquidity. In addition, the association between current liabilities (CL), measured by

dividing current assets by current liabilities, and stock liquidity is negative but not statistically significant, while the association between firm size and stock liquidity is positive but not statistically significant.

#### **4.3 implication of the study**

The aim of this study is to investigate the effect of accounting conservatism on the liquidity of stocks of companies listed on the Palestine Stock Exchange and the Amman Stock Exchange. This study works to fill the gap in the literature, especially in Palestine and Jordan, because there is a lack of studies at the level of Palestine and Jordan. The study provides comprehensive investigations, as it searches for the effect of accounting conservatism on stock liquidity and takes into account several controlling variables. Therefore, this study has great importance in contributing by focusing on accounting conservatism policies, especially in Palestine and Jordan. In addition, the study provides a clear vision of stock liquidity, its characteristics, and its importance for various parties. The study enhances the importance of using different accounting conservatism methods because of their positive impact on stock liquidity, which makes companies more conservative to obtain greater liquidity and thus attract the attention of investors. It is important for investors in terms of emphasizing the impact of accounting conservatism on stock liquidity, thus directing investors to invest in companies that follow more conservative policies than others. As for regulatory bodies, this study emphasizes the importance of enacting the necessary laws and instructions to follow accounting conservatism policies.

#### **4.4 Study limitations**

The results of the study support the various evidence and theories about the positive impact of accounting conservatism on stock liquidity. However, there are many limitations that must be taken into account when drawing conclusions, including that the number of companies does not represent all companies in Palestine and Jordan. There are unlisted companies that were not taken into account due to the lack of all their disclosures because they do not apply the corporate governance law and do not adhere to accounting conservatism policies. and also, the specific nature of the study is context-specific. The results may not be directly applicable to other financial markets due to the unique economic, regulatory, and corporate environments in Palestine and Jordan.

## **4.5 Conclusion**

Based on the theoretical framework, pertinent research, and literature, as well as data released by companies on the Palestine and Amman Stock Exchanges, this study aims to examine how accounting conservatism affects the liquidity of stocks for companies listed on both exchanges for the years 2009–2022. The total amount of There are 204 businesses from the Palestine and Amman Stock Exchanges that are spread across several industries.

The main conclusion from the analysis is that accounting conservatism positively affects the liquidity of the stock during the study period, meaning that an increase in accounting conservatism measures leads to an increase in the liquidity of the stock, in addition to the impact of the coronavirus on the liquidity of the stock in an important way. As for all of the control variables, financial leverage and quality the company, the company's nationality, the company's liquidity, and the return on assets. Each of these variables individually does not significantly affect the liquidity of the stock.

Because of their effect on stock liquidity, this study suggests that corporations should increase their accounting conservatism measures. Additionally, by enforcing an accounting conservatism policy on businesses, the relevant authorities aim to lessen the issue of knowledge asymmetry that undermines accounting conservatism. arranging training sessions to teach small investors how to preserve stock liquidity and how to understand the information that is accessible about equities that are traded on the stock exchange. In order to achieve accounting conservatism, market regulatory bodies must inform businesses and all parties involved in the financial market about the significance of attaining stock liquidity and the consequent decrease in information asymmetry and opportunistic manager behavior.

## **4.6 Recommendations for Future Research**

This study adds significantly to the body of knowledge on stock liquidity and accounting conservatism, particularly in Palestine and Jordan. However, a significant quantity of empirical research that might be helpful for future studies in Palestine and Jordan was not covered in this study. Therefore, there are various approaches that the researcher can investigate as a whole.

Investigating accounting conservatism in developing nations like Palestine and the Middle East and the opinions of stakeholders regarding its policies—which include investors, the government, and regulatory agencies in businesses—as well as concentrating on unlisted businesses rather than just listed ones or comparing the accounting conservatism of listed and unlisted businesses in each of these countries is one avenue for future research.

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جامعة النجاح الوطنية  
كلية الدراسات العليا

## أثر التحفظ المحاسبي على سيولة الأسهم دراسة تطبيقية على الأسواق الناشئة

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قدمت هذه الرسالة استكمالاً لمتطلبات الحصول على درجة الماجستير في التمويل، من كلية الدراسات العليا، في جامعة النجاح الوطنية، نابلس-فلسطين.

2025

## أثر التحفظ المحاسبي على سيولة الأسهم: دراسة تطبيقية على الأسواق الناشئة

إعداد

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### الملخص

تهدف هذه الدراسة إلى التحقق من تأثير التحفظ المحاسبي على سيولة أسهم الشركات المدرجة في بورصتي عمان وفلسطين. من عام 2009 إلى عام 2022، تم تضمين 202 شركة مدرجة في بورصة عمان وبورصة فلسطين في بيانات اللوحة السنوية لهذه الدراسة (المقطعية / السلسلة الزمنية). تم استخدام الانحدار الخطي المتعدد ونموذج طريقة اللحظات (GMM) والإحصاء الوصفي. لتقييم فرضية البحث. ولأنها مدرجة حديثاً، لم ندرج شركات مثل شركة بنك الصفا وشركة أركان العقارية وشركة مستشفى ابن سينا التخصصي وشركة أملاك للاستثمار والتجارة العقارية المدرجة في بورصة فلسطين لأننا لم يكن لدينا تقارير سنوية لها لجميع سنوات الدراسة. للوصول إلى إجمالي عدد الشركات المدرجة في بورصة فلسطين (45). تُظهر النتائج أنه خلال فترة الدراسة، كان للتحفظ المحاسبي تأثير إيجابي على سيولة الأسهم، وأنه عندما تزداد مقاييس التحفظ المحاسبي، تزداد سيولة الأسهم أيضاً. تُسهم نتائج البحث المذكورة في الدراسة في إثراء المعرفة النظرية والعملية، وتُسدّ الفجوة ذات الصلة. تأثير التحفظ المحاسبي على سيولة الأسهم.

**الكلمات المفتاحية:** التحفظ المحاسبي، سيولة الأسهم، بورصة فلسطين، بورصة عمان.