



Research Article

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The Association between Accounting Conservatism and Cash Holding, Dividends and Leverage

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Abstract

This paper examines the effect of accounting conservatism on several financial decisions in Jordan. In particular, it aims to expose the effect of accounting conservatism on cash holdings, dividends distributions, and leverage for a sample of 83 Jordanian industrial and service firms listed on the Amman Stock Exchange (ASE) for the period 2015-2019. The feasible generalised least squares (FGLS) regression technique is used to test the association between accounting conservatism and financial decisions. The findings of this paper reveal a negative and significant relationship between accounting conservatism and cash holding. However, positive but insignificant relationships are reported between accounting conservatism and both dividends distributions and leverage. These findings have important implications for investors, corporate managers, and policymakers. The study recommends that future research use different measures of leverage, such as debt-to-equity ratio and long-term debt to equity ratio, in order to compare the results of different measuring instruments. It also recommends incorporating other measures of conservatism, such as market to book ratio and timeliness asymmetric measure.

Keywords: Accounting conservatism; cash holding; dividends; leverage; Jordan

1. Introduction

Accounting conservatism is considered an important accounting aspect regarding the quality of financial reporting. This concept refers to the immediate and timely recognition of potential losses and costs while understates the company's assets and earnings (Ball & Shivakumar, 2005). Despite sometimes being viewed as a negative constraint that may not reflect the real financial numbers, it is an important tool that has been documented to increase firm value. The previous literature offers

several explanations for this different treatment between losses and gains on firms' outcome. A common explanation from the agency theory perspective is contracting, including corporate governance, managerial compensation and contracts with debtholders (Watts & Zimmerman, 1983).

Accounting conservatism could minimise the conflicts of interest between managers and owners. To make sure that managers are performing in the best interest of owners, in this case, verifiable and reliable accounting numbers are required to judge their performance (Ahmed & Duellman, 2011). In preparing financial statements, accounting conservatism decreases the probability of overstatement in financial data. Thus, these figures will reflect a clear picture of the financial position of the firm. At the same time, any wrong managerial decision or selection of improper investment opportunity - e.g., projects with negative net present value - will be easily verified by shareholders, which serves as an important monitoring governance mechanism.

Moreover, a higher degree of conservatism might also affect managerial compensation contracts. Due to the employment risk, managers tend to overstate the company's earnings and profits. However, in the presence of accounting conservatism, only the recognised earnings are reported. In the meantime, a timely and rapid recognition of firms' losses is applied. In these firms, therefore, opportunistic investment decisions are less likely, increasing managerial self-discipline and improving their decisions (Cho & Choi, 2016). Debtholders are another party who prefer and request a higher degree of conservatism, since this practice is in their interest. As the level of debt increases in the firm, debtholders, as investors, become more worried about the recovery of their investment in the investee and, accordingly, more interested in monitoring and overseeing managerial performance (Ahmed & Duellman, 2007). As indicated above, with accounting conservatism managers will focus on profitable projects that add value to the firm to avoid the immediate recognition of losses. Thus, any wrong decision that might incur losses will be a timely warning signal for corporate debtholders who will take several actions to save their debt investment. Consistent with these arguments, Ball *et al.* (2008) provide evidence that debt markets, generally, demand a higher degree of accounting conservatism.

The effect of accounting conservatism on corporate financial decisions is well documented in the literature. For instance, the level of cash holding is considered one of the important decisions that can affect firm value. Due to agency conflicts and the presence of asymmetric information, managers are expected to abuse cash for their own self-interest (Muller-Kahle *et al.*, 2014). Prior studies find evidence that a higher degree of accounting conservatism serves as a disciplining tool, reducing the overinvestment of corporate free cash flow (Drobetz *et al.*, 2010). However, the available evidence on the relationship between accounting conservatism and cash holdings is still limited. Moreover, this evidence mainly comes from developed economies. Thus, examining this relationship in a different setting, such as Jordan, will contribute to our understanding of such a relationship. This represents our first objective in this study.

The second objective of this study is to look for the association between accounting conservatism and corporate leverage. As the level of debt increases in the capital structure, creditors increasingly become important key players in the company. Creditors are more likely to be concerned with the lower end of earnings and the company's net assets to guarantee their financial claims. Accordingly, accounting conservatism might be an important aspect for creditors in showing the financial position of the company. Although prior empirical studies (e.g., LaFond & Watts, 2007; Ahmed & Duellman, 2007) find that higher debt positively affects accounting conservatism, this evidence is still limited. This serves as a motivation for this study to provide empirical evidence from the Jordanian market where the majority of these firms are characterised by high debt level.

The last objective of this study tackles an important financial decision in the company, i.e., cash dividends. A clear gap in the literature appears due to the limited empirical studies that examine the relationship between accounting conservatism and cash dividend payments. Although cash dividends could minimise the conflicts in the (principal-agent) relationship, they might, on the other hand, aggravate the conflicts between principal and creditors, due to the possibilities of higher default. Thus, how accounting conservatism affects corporate dividends policy is an important issue for all

the players in the company. For instance, Ahmed et al. (2002) show that a higher degree of conservative accounting is preferable in firms with severe conflicts over dividends policy, while Frankel et al. (2008) do not find any significant effect of accounting conservatism and corporate dividends policy. Motivated by the limited and inconsistent findings, this study aims to investigate the relationship between accounting conservatism and cash dividend policy in the Jordanian firms.

The rest of this paper unfolds as follows. Following the introduction in section one, the literature review and hypotheses development is provided in section two. Section three explains the research design and empirical findings. The last section concludes the study.

2. Literature Review and Hypotheses Development

2.1 Accounting Conservatism and Cash Holding

One of the main factors that may reflect a firm's continuity is the level of its cash holding. Indeed, if firms hold enough cash there is a great likelihood to successfully pass over periods of recessions and, accordingly, there is less likelihood to be in need of cash from outside sources; i.e., raising debt or equity. On the other hand, if firms hold inadequate amount of cash there is great likelihood to ask for cash from outside sources; i.e.; raising debt or equity, the consequence of which is a high cost of capital (Al-Amri et al., 2015). Cash holding, however, is affected by accounting policies and procedures, such as accounting conservatism. Specifically, conservative behaviour affects the level of cash by either minimising revenues or maximising costs because this behaviour accelerates the recording of potential losses and delaying of the recognition of revenues.

While there is a growing concern among researchers in different contexts regarding the association between accounting conservatism and cash holding, mixed results are reported. For example, Al-Amri et al. (2015), using unique data from the Gulf countries, find high levels of cash in firms where high levels of accounting conservatism are practised. They also report that this result is more often observed in publicly owned firms compared with privately owned firms. Using large number of observations from 1974 to 2006, Louis et al. (2012) show that firms' levels of cash are positively associated with the levels of conservative practices exercised by their management. A similar conclusion is reported by Ahmed et al. (2002), who find that conservative behaviour enhances the level of cash by avoid distributing excessive dividends to firms' shareholders.

In contrast, Shehata and Rashed (2021) - using data from 11 sectors from 2013 to 2018 - find a negative association between accounting conservatism and the levels of cash holding. Furthermore, this result is obtained after controlling the mediating effect of information asymmetry on this association. Soliman (2019) also documents the negative impact of accounting conservatism on cash holding. The study also finds that this negative impact can be minimised when a firm's size increases. Given that the findings of the association between accounting conservatism on cash holding are still equivocal, the current study follows the perspective in the literature that the level of cash is expected to increase as conservative behaviour decreases. Thus, the following hypothesis is formulated:

H₁: *There is a negative association between accounting conservatism and cash holding.*

2.2 Accounting Conservatism and Cash Dividends

There is still a considerable debate in the accounting literature about why firms pay cash dividends to shareholders. According to agency theory, cash dividends can be used as a mechanism to alleviate agency problems that are caused by the separation of ownership and control; cash dividends in this regard are seen as a fundamental catalyst for decreasing free cash flows, which in turn acts as a deterrence against managers' tendency towards squandering cash flow on worthless investment projects and achieving other private benefits (Easterbrook, 1984; Jensen & Meckling, 1976). On other hand, an excessive amount of cash dividends will raise the default risk for creditors by reducing the amount of assets available to meet bondholders' claims. Hence, to align the interest of all parties and

to mitigate this conflict, Kalay (1982) and El-Gazzar and Pastena (1990) suppose that bondholders impose dividends constraints in debt contracts. It is contended (e.g., Watts, 2003; Ahmad *et al.*, 2002) that accounting conservatism is one of the bedrock precepts of financial reporting due to its important role in mitigating conflicts between shareholders and creditors over dividends policy. Accounting conservatism reflects a firm's preference to accelerate the recognition of bad news while slowing down recognition of good news (Basu, 1997). As a result, conservative accounting reduces the amount of income and retained earnings which are used as a basis for distributing cash dividends (Ahmed *et al.*, 2002; Zhang, 2000). As a corollary to this, choosing more conservative accounting policies and procedures can reduce the bondholder' default risk.

Scant research has been conducted regarding the association between accounting conservatism and cash dividend distributions. Ahmed *et al.* (2002) point out that firms having a drastic conflict over dividends policy between shareholders and bondholders would choose more conservative accounting. In the same vein, Mousa (2014), Chen *et al.* (2012) and Ciocan (2019) report that firms with more conservative procedures are less likely to distribute dividends to shareholders. However, Frankel *et al.* (2008) find that conservative accounting policies and procedures do not have a significant impact on the distribution of cash dividends. Hence, the following hypothesis is developed:

H₂: *There is a negative association between accounting conservatism and cash dividends.*

2.3 Accounting Conservatism and Leverage

The level of firms' leverage is considered among the most influential factors that managers must consider when they take investing, financing or operating decisions. For example, managers might manoeuvre with earnings magnitude across time in order to influence the relationship between debt and equity. If managers feel that the current debt/equity ratio is intolerable for being high as far as the required image in the market place is concerned, they can inflate current earnings at the expense of future earnings (Watts and Zimmerman, 1986).

This can be done through, for example, capitalizing instead of expensing expenditures, switching from LIFO to FIFO assuming prices are going up, switching from double-declining balance to straight-line depreciation method. The rush to pour more cash by current or new shareholders cannot be ruled out. This shift in reporting earnings between periods might temporarily boost the value of a company's share. Therefore, the outcome of such a manoeuvre is an artificial increase in retained earnings that in turn results in an increase equity the consequence of which is a reduction in the debt/equity ratio.

This implies that leverage is most likely affected by the extent of a firm's accounting conservatism. In other words, more conservative behaviour is expected to appear in firms with high levels of debt. Indeed, Salama and Putnam (2015) document a strong positive as well as significant association between conservative behaviour and financial leverage, especially with the presence of global diversification in a firm's capital structure. More specifically, they argue that creditors exert more pressure on managers to select conservative choices when a high level of information asymmetry is expected to be observed in their firms. A similar conclusion is reported also by several researchers, such as Dang and Tran (2020), Sugiarto and Fachrurrozie (2018), Yuliarti and Yanto (2017) and Tosi and Paidar (2015).

Sari and Agustina (2021), using data from the Indonesia Stock Market from 2015 to 2018, find a significant negative association between accounting conservatism and leverage, especially when managerial ownership is low. This is most likely because managers will follow the accounting policies which preserve the trust among firms' stakeholders. In the same vein, Ibrahim, Wang and Hailu (2019) investigate firms' data from eight African countries and show that a low level of debt is found in firms that exercise more conservative accounting practices. It is clear that there is no general consensus in the prior research pertaining to the association between accounting conservatism and leverage, indicating that more research on this association is highly recommended. The current

study, therefore, tries to contribute to this ongoing debate in the literature and provides evidence from the Jordanian market. Thus, the following hypothesis is formulated:

H₃: *There is a negative association between accounting conservatism and leverage.*

3. Research Design

3.1 Sample

The sample chosen includes all industrial and service firms listed on the Amman Stock Exchange (ASE). The data collected extends over five-years period. It excludes firms operating in financial institutions, primarily because they have different reporting regime that could influence the figures associated with dependent variables. It also excludes delisted observations with missing or insufficient variable data. Therefore, the final sample includes 415 firm-year observations. This study depends on annual reports that are available on the databases of the ASE and the Security Depository Center (SDC) to extract the appropriate data to conduct the current study. Table 1 provides detailed information regarding the sample.

Table 1: Study sample

Description	Number of observations
Number of services firms listed on the ASE	230
Number of industrial firms listed on the ASE	230
Total population	460
Less: Number of firms with missing data	45
Final study sample	415

3.2 Variables Measurement

This study adopts the accrual-based measure of conservatism which is proposed by Givoly and Hayn (2000) and Givoly et al. (2007) to reflect the accounting accruals in the next period. Conservatism leads to lower reported earnings through slower recognition of revenues and gains and faster recognition of expenses and losses. Corollary to this, firms with more conservative accounting present more negative accruals.

Conservatism dimensionalized by accruals is calculated as income before extraordinary items and discontinued operations plus depreciation expense minus cash flow from operating activities; the total of this is divided by total assets at the beginning of the accounting period. The accrual value can, then, be spread over a convenient number of years perhaps through an average with year t chosen in the middle of the period chosen. The period chosen extends over three years. The average is then multiplied by -1. (Makhlouf et al., 2018), since a reversal of accruals within one or two-year period is the most likely eventuality (Ahmed & Duellman, 2007). Accounting conservatism (AC) is therefore calculated based on this index using the following formula:

$$Accruals_{it} = \beta_0 + \beta_1[(IBEI + DEP - CFO)]_{it} / TA_{t-1} + \epsilon_{it} \quad (1)$$

$$AC_{it} = Accruals / (3 \text{ years}) * -1 \quad (2)$$

Where:

$IBEI$ = Income before extraordinary items and discontinued operations

DEP = Depreciation expense for the current period.

CFO =Cash flow from operating activities

TA_{t-1} = Total assets at the beginning of the year

Three models are used here to reflect the impact of accounting conservatism on cash holdings, dividend payment and leverage. In model one, cash holding (CASH) is measured by the ratio of cash and cash equivalent to total assets (Al-Hadi et al., 2020; Al-Amri et al., 2015; Soliman, 2019). In model

two, cash dividends (DIVIDENDS) are measured by the ratio of dividends paid to shareholders to total assets (Al Lawati & Hussainey, 2021; Jiraporn *et al.*, 2011). In model three, leverage (LEV) is measured by the ratio of total debt to total assets (Tosi *et al.*, 2015; Ibrahim *et al.*, 2019; Solichah & Fachrurrozie, 2019).

Due to a possible relationship between the dependent and independent variables, controlling for a variety of factors that might influence this relationship must be adequately determined. Specifically, it controls for firm size (SIZE), which is measured by the logarithm of total assets; sales growth (GROWTH), which measured by the rate of sales revenue from t-1 to t; dividend ratio (DR), which is measured by the ratio of cash dividend to total assets; cash flow volatility (CFV), which calculated as the standard deviation of cash flow for each firm; net working capital (NWC), which is calculated as current assets minus current liabilities scaled by total assets; return on assets (ROA), which is measured by the ratio of net income to total assets. Table 2 presents the definitions of variables and summarises their measurement. Based on the previous discussion, the following regression equations are used to test the hypotheses:

$$CASH_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 GROWTH_{it} + \beta_5 DR_{it} + \beta_6 NCF_{it} + \beta_7 NWC_{it} + \beta_8 ROA_{it} + \varepsilon_{it} \quad (3)$$

$$DR_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \varepsilon_{it} \quad (4)$$

$$LEV_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \varepsilon_{it} \quad (5)$$

Table 2: Summary of variables and their measurement

Description	Variable name	Measurement	Exp. sign
Dependent variable:			
CASH	Cash holding	The ratio of cash and cash equivalent to total assets	
DIVIDENDS	Cash dividends	The ratio of dividends paid to shareholders to total assets	
LEV	Leverage	The ratio of total debt to total assets	
Independent variable:			
AC	Accounting conservatism	The accrual-based measure of conservatism	-
Control variables:			
SIZE	Firm size	The total assets at the beginning of the year	+
GROWTH	Sales growth	The rate of sales revenue from t-1 to t	+
DR	Dividend ratio	The ratio of cash dividend to total assets	?
CFV	Cash flow volatility	The standard deviation of cash flow for each firm	?
NWC	Net working capital	Current assets minus current liabilities scaled by total assets	?
ROA	Return on assets	The ratio of net income to total assets	+

3.3 Descriptive Statistics

Table 3 presents the descriptive statistics for the dependent, independent and control variables from 2015 to 2019. The mean value recorded for accounting conservatism (AC) is -1 percent, confirming the implementation of more conservative policies and procedures among Jordanian firms. More interestingly, this result is approximately the same as that reported by Alkordi *et al.* (2017), who found that the average of AC was -3 percent in manufacturing and financial firms listed on the ASE between 2005 and 2013. Further screening of Table 3 shows that the mean of cash holding (CASH) is 6 percent of total assets, indicating that Jordanian firms held a low amount of cash during the study period. This result is in line with the results reported by Al-Lawati and Hussainey (2021) and Al-Amri *et al.* (2015). In addition, the table shows that the mean value of dividends ratio (DIVIDENDS) is 2.7 percent, which is approximately the same as what has been found by Bataineh (2021) in the Jordanian context. Moreover, this study reveals that firm leverage (LEV) has a mean value of 37.5 percent. While this value is less than that reported by Alkordi *et al.* (2017) and Dang and Tran (2020), it is close to what has been reported by Abed *et al.* (2012). Table 3 finally provides statistics about the control variables included in this study covering firm size, sales growth, dividends ratio, cash flow volatility,

net working capital and ROA

Table 3: Descriptive Statistics

Variable	Obs.	Mean	Median	Std. Dev.	Min	Max
CASH	415	0.060	0.023	0.096	0.000	0.623
DIVIDENDS	415	0.027	0.000	0.054	0.000	0.426
LEV	415	0.375	0.323	0.233	0.018	0.997
AC	415	-0.010	0.016	0.397	-7.256	0.963
SIZE	415	17.375	17.290	1.436	13.029	21.088
GROWTH	415	-0.040	-0.022	0.242	-0.990	0.879
DR	415	0.027	0.000	0.054	0.000	0.426
CFV	415	19.348	19.386	0.733	4.605	20.188
NWC	415	0.119	0.088	0.244	-0.704	0.819
ROA	415	0.990	2.319	10.251	-61.339	38.668

All variables were defined previously in Table 2.

3.4 Regression Analysis and Findings

Before conducting regression analysis, multicollinearity is tested using Pearson’s correlation matrix to assess the degree of correlations among variables, where correlation should not exceed 0.8, to prove that there is no multicollinearity problem (Gujarati, 2004). As shown, in Table 4 all values are below 0.80, indicating that the variables are free from the multicollinearity problem.

Table 4: Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) (9)
(1) CASH	1							
(2) AC	0.019	1						
(3) LEVERAGE	-0.30	-0.037	1					
(4) SIZE	0.118	0.109	0.342	1				
(5) GROWTH	0.123	0.136	-0.001	0.125	1			
(6) DR	0.613	0.101	-0.316	0.033	0.134	1		
(7) CFV	0.024	-0.029	-0.103	-0.132	-0.006	0.008	1	
(8) NWC	0.443	0.042	-0.481	-0.277	-0.004	0.270	0.014	1
(9) ROA	0.498	0.087	-0.328	0.275	0.325	0.526	-0.012	0.342 1

All variables were defined previously in Table 2.

To select the appropriate panel estimation method, the study performs several model specifications tests. The lagrangian multiplier test for random effect is required to judge whether the use of ordinary least squares (OLS) method or panel data will adequately provide the required estimates (Bouaziz *et al.*, 2020). First, it runs an individual effect test specification. The results indicate that the error probability for all models is (0.000). As a result, it rejects the null hypothesis of no specific effects and the data used are panel data. After that, it conducts the Hausman test to clearly differentiate between random and fixed effects. The probability value of H_0 for the three models is less than (0.05), suggesting that the null hypothesis of the random effects model is rejected and thus the more appropriate model is the fixed effects model. Moreover, the study runs the Breusch–Pagan test, which reveals that a heteroscedasticity problem exists in all of the models. Corollary to this, the feasible generalised least squares (FGLS) estimator is the proper estimator when dealing with both heteroskedastic error structures with cross-sectional correlation and error autocorrelation (Bouaziz *et al.*, 2020).

The results depicted in Table 5 show that there is a negative and significant association ($\beta = -0.018$; p

< 0.05) between accounting conservatism (AC) and cash holding (CASH), implying that firms with a high level of conservatism tend to have lower levels of cash.

Table 5: Results of FGLS Regression for Cash Holding

Cash Holding	Coefficient	T-value	Probability
AC	-0.018	-2.10	0.036
LEV	-0.014	-0.80	0.421
SIZE	0.013	4.60	0.000
GROWTH	0.010	0.65	0.518
DR	0.834-	11.46-	0.000
CFV	0.005	1.06	0.288
NWC	0.131	7.88	0.000
ROA	0.001	1.37	0.170
Constant	-0.295	-2.80	0.005
Adjusted R ²	50.8		
No. of observations	415		

Notes: All variables were defined previously in Table 2.

Table 6 reports the results of the association between accounting conservatism (AC) and dividends ratio (DR). It shows that there is no association between them as the coefficient of the AC is positive, but not statistically significant. rejected.

Table 6: Results of FGLS Regression for Dividends Ratio

Dividends Ratio	Coefficient	T-value	Probability
AC	0.008	1.46	0.144
LEV	-0.030	-2.59	0.010
SIZE	-0.003	-1.37	0.171
ROA	0.003	10.3	0.000
Constant	0.079	2.62	0.009
Adjusted R ²	30.6		
No. of observations	415		

Notes: All variables were defined previously in Table 2.

Finally, Table 7 indicates that there is no significant association between accounting conservatism (AC) and financial leverage (LEV) as the coefficient of the accounting conservatism is positive, but statistically insignificant.

Table 7: Results of FGLS Regression for Leverage

Leverage	Coefficient	T-value	Probability
AC	0.029	1.19	0.232
SIZE	0.077	11.1	0.000
ROA	-0.010	-10.6	0.000
Constant	-0.946	-7.89	0.000
Adjusted R ²	31.2		
No. of observations	415		

Notes: All variables were defined previously in Table 2.

4. Discussion

This section demonstrates the result of the research hypothesis based on feasible generalised least

squares (FGLS) regression technique as follows:

The result in Table 5 shows that there is a negative and significant association ($\beta = -0.018$; $p < 0.05$) between accounting conservatism (AC) and cash holding (CASH), implying that firms with a high level of conservatism tend to have lower levels of cash. This negative association suggest that firms which adopt more conservative policies and procedures are showing a lower level of information asymmetry between shareholders, bondholders and the firm's management. This in turn alleviates agency cost and mitigates managers' ability to manipulate earnings and satisfy their interest with other interested parties. So, managers would have few incentives to hold excess amounts of cash. This result is consistent with Soliman (2019) and in contrast with Lin *et al.* (2018) and Hamad *et al.* (2019). Regarding control variables, while Table 5 shows that firm size (SIZE) and net working capital (NWC) are positively and significantly influencing cash holding, dividends ratio (DR) is found to be negatively and significantly affecting cash holding. Therefore, H_1 is accepted.

The result also indicates in Table 6 that there is no association between accounting conservatism (AC) and dividends ratio (DR) as the coefficient of the AC is positive, but not statistically significant. However, it seems that firms that adopt more conservative procedures are more likely to distribute dividends to shareholder in order to limit management's ability to squander cash flow on unprofitable investment projects and then achieve other private benefits. This result is in line with Frankel *et al.* (2008) and contradicts Mousa (2014) and Ciocan (2019). Moving to the control variables, Table 6 shows that LEV is negatively and significantly affecting cash dividends, while ROA is positively and significantly influencing it. Based on the previous discussion, H_2 is rejected.

Moreover, the result in Table 7 indicates that there is no significant association between accounting conservatism (AC) and financial leverage (LEV) as the coefficient of the accounting conservatism is positive, but statistically insignificant. This result may suggest that more conservative procedures adopted by firms are associated with enhancing debt capacity; so higher leverage ratio is obtained. This result is consistent with Solichah and Fachrurrozie (2019) and contradicts Dang and Tran (2020), Sugiarto and Fachrurrozie (2018) and Yuliarti and Yanto (2017). In terms of control variables, Table 7 reports a positive and significant impact of firm size (SIZE) on firms' leverage, while ROA negatively and significantly affects leverage. Based on the previous discussion, H_3 is rejected.

5. Conclusion

This study aimed to investigate the effect of accounting conservatism on the financial decisions measured by three common proxies: cash holdings, dividends distributions and leverage among the Jordanian industrial and service firms listed on the ASE for the period from 2015 to 2019. The main results of this study show a negative and significant association between accounting conservatism and cash holding. One possible justification for this association is that firms adopting more conservative policies and procedures exhibit lower levels of information asymmetry between shareholders, bondholders and firm's management, which in turn lessens managers' ability to manipulate earnings, thus managers would have few incentives to hold excess amounts of cash. Inconsistent with the current study's predictions, no significant association is found between accounting conservatism, dividends distributions and leverage. This study recommends future research to use different measures of leverage, such as debt-to-equity ratio and long-term debt to equity ratio, in order to compare the results of different measuring instruments. It also recommends incorporating other measures of conservatism, such as market to book ratio and timeliness asymmetric measure.

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