Research Article



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# The Impact of Accounting Conservatism on Financial Performance in Services Companies Listed on Amman Stock Exchange

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***Abstract***

*This study aimed to identifying the impact of accounting conservatism on financial performance in services companies listed on Amman Stock Exchange, where the accounting conservatism was measured through the model of (Gvoly & Hyans, 2000), an approach that based on accruals, while the financial performance was measured through the return on equity (ROE), and earnings per share (EPS). And in order to achieve the objectives of the study, the descriptive and analytical approach was adopted, where the study was conducted on a sample of (23) service companies listed on Amman Stock Exchange during the period from 2015 to 2019. Also, in respect of analyzing the study data and test its hypotheses, the statistical analysis program (SPSS) was utilized, and simple regression equation was relied on in testing the hypotheses. Whereas, the major findings of the study are as follows: There is no statistically significant impact of the accounting conservatism on the financial performance with its indicators (rate of return on equity, and profit per share) in the services companies listed on Amman Stock Exchange. Meanwhile, the study recommended the necessity of urging the researched and listed services companies' management on Amman Stock Exchange (especially those characterized by low accounting conservatism) to apply the principles and standards of accounting conservatism, due to the importance of these procedures on the quality of the financial reports and consequently the profits therein.*

***Keywords:*** *Accounting conservatism; Financial performance; Return on equity; Earnings per share*

## 1. Introduction

With the emergence of public shareholding companies that are characterized by their huge business, besides the separation of companies' ownership from their management, the role of accounting has doubled as an that plays an important role in serving the management as well as data and financial information users to help them make their decisions. According to (Al-Theibeh, et. al., 2018), information has become the most important factor in this era, it is the substance of competition at all levels, as that financial information must provide relevance and reliability for the fair presentation of reports and financial statements.

In view of the accounting practices and policies that varies from one company to another, and the need for accountants to provide their financial reports honestly, fairly, and impartially, in accordance to it, we find that some of them apply the accounting conservatism policy; prudence and caution, where there are many accounting measurements in cases of doubt and uncertainty, with many measurement's alternatives and methods (Mohamad, 2020). Recently, accounting conservatism is considered a source of interest for researchers in order to try to study its impact on many other accounting concepts, as its use is related to uncertainties. This refers to the personal judgment of the accountant in the estimation process, so the application of the accounting conservatism within the company greatly affects the financial statements (Sabrina, 2019).

In addition, the accounting conservatism policy relied on the failure to recognize the profits and ignore the financial period until they are achieved and obtained, when in fact the acceleration of recognizing the expected expenses and losses for the period and proofing it. Therefore, the accounting conservatism is characterized by a high degree of verification required to recognize the good news in terms of profits and revenues, compared to the required low degree of bad news' verification in a way faster than its impact on the good news (Al-Najjar, 2014).

This study shows the impact of the accounting conservatism on the financial performance of service companies listed on Amman Stock Exchange, by measuring its impact on the rate of return on equity and profitability per share. Where profitability is analyzed for administrative purposes through the rate of return on equity, and analysis for investment purposes through earnings per share.

This study aims to bridge the gap in the prior studies focused in the conservatism accounting. Thus, the novelty of this study came from focusing on the new methods of conservatism practiced by companies.

### *1.1 Study Problem and Questions*

The accounting conservatism policy is a general approach that measures the position of the accountant, to address the problem of uncertainty in a practical way, and its application is generally accepted and supported by most categories of the financial statements users, as the company's management tends, in general, to inflate the income number through the information of the financial statements, which should result in mislead the users of these financial statements, and thus may affect the financial performance of the services companies listed on Amman Stock Exchange.
Based on the foregoing, the study problem can be determined through the following main question:

- Is there an impact of the accounting conservatism on the financial performance of services companies listed on Amman Stock Exchange?

Whereas, the following questions arise from it:

- Is there an impact of the accounting conservatism on the rate of return on equity in services companies listed on Amman Stock Exchange?
- Is there an impact of the accounting conservatism on earnings per share in services companies listed on Amman Stock Exchange?

### *1.2 Study objectives*

Through this study, the researcher seeks to achieve the following objectives:

1. Identify the impact of the accounting conservatism on the rate of return on equity and on earnings per share in services companies listed on Amman Stock Exchange.
2. Identify the concept, types, and measures of accounting conservatism and its usage justifications.

### *1.3 Study importance*

The importance of the study lies in explaining the impact of the accounting conservatism on the financial performance of the services companies listed on Amman Stock Exchange.

## 2. Literature Review

Many studies have dealt with the issue of accounting conservatism in several directions, including: (Shahid & Abs, 2015; Shahwan, 2018)) study, which found a difference in the ratios of accounting conservatism among companies listed on Damascus Securities Exchange. As for the study (Al-Masaeed, 2016), it was found that there is a direct relationship between the scale of receivables and property rights, while the relationship between the scale of receivables and earnings per share was inverse. As for the companies' commitment to accounting conservatism. (Al-Zahra, 2017) study showed banks' obligation to apply accounting conservatism. Also, the study of (Ali & Shaker, 2017) confirmed the existence of an acceptable number of companies' commitment to accounting conservatism and the transparency of accounting information disclosure.

While the study (Maswadeh, 2016) showed that Jordanian insurance companies practice conservative accounting policies more than other companies. As for the study of (Abu Hudaib, 2018), it showed statistically significant differences between the highly profitable Jordanian public shareholding industrial companies in practicing accounting conservatism. With regard to investment, the study of (Lara et al., 2016) showed that more conservative companies invest and issue further debt in environments prone to underinvestment.

With regard to this study, the study: (Purnama, 2019) showed a positive impact of accounting conservatism on the return on assets (ROA), while it showed that there is no impact of accounting conservatism and intellectual capital on the return on equity (ROE). This study comes to highlight "The impact of the accounting conservatism on the financial performance of services companies listed on Amman Stock Exchange". Also, it is distinguished from its predecessors in choosing the population and sample of the study, as the current study was applied to service companies listed on Amman Stock Exchange, unlike previous studies that focused on insurance, industry, and banking sectors.

### *2.1 Study Hypotheses*

This study is based on the following main hypothesis:

**H0:** There is no statistically significant impact at significant level ($\alpha \leq 0.05$) for the accounting conservatism on the financial performance of services companies which are listed on the Amman Stock Exchange.

The following sub-hypotheses are derived from this hypothesis:

**H01**: There is no statistically significant impact at significant level ($\alpha \leq 0.05$) for the accounting conservatism on the rate of return on equity in services companies which are listed on the Amman Stock Exchange.

**H02**: There is no statistically significant impact at significant level ($\alpha \leq 0.05$) for the accounting conservatism on earnings per share in the services companies which are listed on the Amman Stock Exchange.

### *2.2 Study Terminology*

**Financial performance**: the extent to which the company is able to make optimal use of the available financial resources, and to seek to achieve the goals previously set by the management, through working to reduce costs and increase revenues and returns (Masoudi, 2015).

**Return on equity**: a financial ratio that shows the value of the return from each dinar invested by ordinary shareholders in the activities of the institution. The rate of return on equity is calculated by dividing the net profit after taxes minus the distribution of preference shares by the total equity of ordinary shareholders (Gibson, 2013).

**Earnings per share**: Earnings per share represent the company's annual profit per share, and it is calculated by dividing the net profit for the year after excluding preferred dividends by the average number of shares outstanding during the year (Mattar, 2016).

### 2.3 *Limitations of the study*

Similar to all the previous studies, this study suffered from different limitations. The main limitation was studies, which focused on the Insurance Sector, the Industry Sector and the Banking Sector, and this study is also distinguished by the fact that it dealt with a recent period of time for period of five years 2015-2019. That is studying modern financial data, there are lack of studies on The Impact of Accounting Conservatism on Financial Performance in Jordan.

### 2.4 *Scope for future research*

Conducting more future studies that deal with the impact of accounting conservatism on other indicators of financial performance, including (return on assets) in services companies listed on Amman Stock Exchange and in other business sectors.

### 2.5 *Accounting Conservatism*

Including "the controversy surrounding the alignment of accounting information produced by traditional measurement methods, and the responsibilities of accountants and those involved in preparing the financial statements" (Abu Al-Khair, 2008). Rather, the accounting conservatism has become at the present time a basic requirement on the part of the parties involved in the reporting process. Especially in the cases of collapse that some companies witnessed at the beginning of the twenty-first century, and the great losses they incurred by stakeholders as a result of opportunistic behavior, and bad practices carried out by the management of these companies, however, the accounting conservatism contributes to ensuring the credibility and reliability of financial statements, protecting stakeholders and increasing their confidence (Eqbal & Al-Qudah, 2014).

### 2.6 *The concept of accounting conservatism*

The accounting conservatism can be defined as a set of procedures based on stored financial and non-financial information that are addressed to assist accountants in admitting the expected losses and delay the admitting of the expected revenues. It can also be defined as "a practical practice that accountants tend to when preparing financial reports, by following accounting alternatives that depend on reducing assets and recognizing all expected losses while postponing the recognition of any expected profits" (Fouad, 2016).

Accounting conservatism was defined as: choosing between accounting methods and alternatives that lead to a continuous decline in the net profit from one period to another (Givoly & Hyan, 2000). As for (Watts, 2003), he defined it as: the difference in the degree of verification required to recognize profits versus losses. Whereas (Beaver & Ryan, 2005) define it as reducing the book value of net assets relative to their market value. However, (Wolk, et al., 2013) see that the accounting conservatism is a way of choosing between acceptable accounting practices, which leads to measuring net assets at a value less than the existing values, and the measurement of the obligations with the large values among the existing values.

From another point of view, it can be explained as the accountant's tendency to obtain a high degree of verification to recognize the good news which is greater than the degree of bad news recognition (Ekbal & Al-Qudah, 2014). Meanwhile, (Shahwan, et al., 2022; Al-Madbouli, 2017) believes that accounting conservatism is an accounting principle used by accountants to meet the state of uncertainty and as a consequence, prepare financial statements carefully. So that it does not result in an amplification of income or a reduction in expenses and obligations, and accountants' reliance on more evidence to recognize profits or gains compared to the evidence used to recognize expenses or losses.

Also, (Sarrawi, 2019) defined the accounting conservatism as: preparing reports and financial statements carefully with regard to recognizing expected losses and disclosing them in advance and the failure to recognize profits except being achieved. Whereas, financial statements resulting in marking down the figures in the financial statements but lower or higher than the actual figures (Thomas, et al., 2020; Shahwan, & Almubaydeen, 2020).

Based on the aforementioned concepts of accounting conservatism, researchers believe that the previous concepts of accounting conservatism have one content since they focused on the matter that the accounting conservatism can be applied in cases of doubt and uncertainty. And that it is characterized by a high degree of caution, also in choosing the appropriate accounting policy concerning recognition and measurement, which gives the small value to assets and profits, and the tendency to a pessimistic view of profits by accelerating the recognition of expected losses, and the failure to recognize revenue unless it is earned and realized (Al-Ramahi, et al., 2021).

### *2.7 The importance of accounting conservatism*

The accounting conservatism is of great importance in accounting thought, as (Mohamad, 2020) supposed that its application provides the company with financial information that shows cases of companies' collapse in the surrounding environment, and that it enhances the credibility of the financial statements, and its application is one of the owners and debt holders' demands. Ordinarily, many researchers believe that accounting conservatism is of great importance in the accounting community. Thus, the researcher reviews it as follows:

- The adoption of conservative accounting policies reduces the cost of equity and debt and the state of uncertainty in accounting information (Kawkab & Saliha, 2016).
- The accounting conservatism is one of the most important accounting concepts on which it depends in making decisions related to the financial reporting process (Ibrahim, 2017).
- The accounting conservatism provides information that helps reduce the possibility of distributing wealth unfairly to one group of stakeholders at the expense of others, and works to increase the quality of financial reports (Abu Al-Ola, 2018).
- The existence of arguments in favor of applying the accounting conservatism, because the consequences of losses and bankruptcy are more dangerous than the impacts of profit and gains (Al-Waqad, 2011).

### *2.8 Factors affecting accounting conservatism*

There are many factors that affect the accounting conservatism, the most important of which are the following:

- Company size: large companies have to implement more conservative accounting policies, compared to small companies (Hamdan, et. al, 2011). And accordingly large companies tend to report lower profits by implementing an accounting conservative (Thomas, et al., 2020).
- Debt contracts: the accounting conservatism limits the management from cash distributions to shareholders at the expense of paying the debt holders account, and the company's lenders (Watts, 2003), so it is in the interest of the lender when he agrees to give the loan that the assets have been valued at lower values (Al-Najjar, 2014).
- Corporate Governance: if the interest in applying corporate governance increases within the

company, this indicates the application of conservative accounting policies (Al-Najjar, 2014).

- Investment efficiency: the company's application of conservative accounting policies improves investment efficiency, and resolves disputes between owners and creditors, as more conservative companies invest better (Lara et al., 2016).
- Information quality: if the accounting information is characterized by the qualitative characteristics of the information quality, the information will be useful to guide its users to make the right decisions (Abu Nassar & Hmeidat, 2018).

### *2.9 Measures of Accounting Conservatism*

(Fouad, 2016) believes that the accounting thought have provided many standards and models in measuring the accounting conservatism in financial reports, and the reason for this is due to the ongoing controversy about accounting conservatism, and the lack of an agreed definition of accounting conservatism, in addition to the researchers' desire to measure the economic impacts of accounting conservatism.

The following are the most important measures and models used in measuring accounting conservatism. The researchers review these measures as follows:

- **Asymmetric timing scale:**

The (Basu) model measures the relationship between earnings and share returns, also (Basu) explains the accounting conservatism as the tendency of accountants reclaiming a higher degree of verification to identify good news than bad news in financial statements, and according to this model, earnings reflect bad news more quickly than the good news, and as a result, this model emphasizes that negative changes in profits are less stable than positive changes in profits (Basu, 1997).

The researcher (Basu, 1997) adopted the design of his market-based scale based on the idea that: prices reflect all the information available to the public, not just the information in the financial statements, and that information affects share prices, so positive or negative share returns arise, and because of the accounting conservatism that reflects bad news relatively faster than good news, which is known as the asymmetric timing of earnings. (Basu, 1997) was the first to link the asymmetric timing with the accounting conservatism (Hamad & Al-Momani, 2018).

- **Introducing the book value to market value:**

The low book-to-market ratio means that there is a high degree of accounting conservatism (Hamdan, 2011).

- **Conservatism Index (C-Score):**

(Penman & Zhang, 2002) believed that the accounting conservatism can contribute to the formation of hidden reserves, notably, given the ratio of hidden reserves to net operating assets. And thus, this points out that the company has conservative accounting policies.

- **Receivables-Based model:**

(Givoly & Hayn, 2000) proposed a model for measuring the accounting conservatism called the negative accruals-based approach, which analyzes the relationship between operating cash flows and net profit prepared on an accrual basis (Obeid, 2017).

### *2.10 Financial performance*

- **The definition of financial performance:**

The financial performance reflects the company's financial position and describes the methods that are used to reach this position by studying and analyzing the items of the financial statements. Identifying problems, working to find solutions to those problems, and being able to improve the company's financial performance (Al-Antari, 2020; Shahwan, 2020).

Financial performance can be defined as one of the methods adopted to evaluate the performance of companies, by providing an appropriate mechanism capable of redressing gaps and rationalizing decisions in order to achieve the goal of growth (Abu Saba & Sari, 2016).

However, (Daden & Hafsi, 2014) define financial performance as providing a valuable judgment about the management natural, material and financial unified resources, besides the extent to which the organization's management is able to satisfy the benefits and desires of its various parties. It is also known as a measuring tool for the extent to which assets are used to generate revenues, and it can be used to compare the companies' performance of the same industry type or between different sectors (Shahwan, & Abdel-hamid, 2020; Al-Qudah, 2015). While (Wahdan, 2017) sees financial performance as measures and indicators that show the efficiency of the company's management in achieving goals through the optimal use of available resources.

It is also defined as the ability of business organizations to reduce their costs and increase their revenue, in order to fulfill their obligations towards others and at the same time determine the extent of optimal utilization of resources (Al-Saati, 2018). According to Fatihudin & Mochklas (2018), financial performance is a measure of the company's ability to generate revenues during a certain period of time through optimal utilization of available resources, in order to achieve pre-set financial goals. Also, Abu Madi, (2020) defined financial performance as the extent of the management's commitment to implementing the financial plan according to pre-defined financial regulations and policies. Through the foregoing concepts, the researchers summarize the financial performance as the extent to which the company uses its available financial resources, extracts the results of the company's business, and demonstrates the financial health it enjoys, through the implementation of predetermined financial goals and plans.

- **The importance of financial performance:**

Naqaz & Mayof, (2019) show the importance of the financial performance, namely, that it highlights many aspects, the most important of which is that it helps in the process of evaluating the company's profitability, evaluating its liquidity, evaluating the development of its activity, its indebtedness, the evolution of its distributions, and its size. Knowing that the company provides tools and methods for analyzing financial performance, as the goal of profitability assessment is to maximize the company's net equity, and the goal of activity assessment is to identify the foundations of how the company manages the dividends of its external investments. Where the purpose of evaluating dividends is to identify the company's policy thereof.

### *2.11 Financial performance measurement*

There are many indicators used to measure the financial performance of companies, the most important of which are the financial ratios related to profitability, and the researcher will mention the most prominent ones, namely, those pertain to the subject of the study, as follows:

- **Return on Equity:**

It is one of the profitability measurements, a measure of how successful the management of the company is in creating value for the owners of common shares. Usually, companies that have a higher return on equity have competitive advantages over their competitors, which leads to higher returns for investors. The return on equity is an important measure for the management of the company that is trying to understand its strengths and weaknesses, and it is also important for the investor who seeks a viable investment. So the return on equity is an important measure because it measures the effectiveness of using capital to generate profits for the company's shareholders, i.e. it measures the return on the owners' investments (Kharatyan, 2016).

Also, return on equity (ROE) is a measure of financial performance, calculated from dividing net income by average equity, since shareholders' equity equals a company's assets minus its debts, ROE is considered return on net assets, and return on equity is considered a measure of a company's profitability in relation to shareholder equity (Investopedia).

From the aforementioned, the researcher sees that the return on equity is one of the strongest indicators that measure the financial performance of the company, and the reason for this is that it is a clear indicator for the management to explain the extent to which the owners' investments can be converted into feasible profits for the company.

- **Earnings Per Share:**

Profit is the main goal that any company must achieve, as profit is used to measure the company's financial performance. A company that achieves returns and profits means that it is able to improve the conditions of the owners and achieve their financial well-being. Therefore, the analysis of earnings per share is one of the common measures of profitability analysis for the investor's purposes. Earnings per share is the amount of profit based on the company's outstanding shares (Yuliza, 2018). Earnings per share (EPS) is one of the most important financial indicators that investors and financial analysts take into consideration, as the earnings per share represents the share of profits available to ordinary shareholders, and is often used to assess profitability and risks associated with profits and to analyze share prices, additionally, information about the profitability of shares is also widely used in concern with the evaluation of operational processes (Shahwana, 2020; Shabani et al., 2013).

Abed & Zalmat, (2019) see that earnings per share is the best measure of the share's real price, and it is one of the most widespread measures, because it clarifies the share of each shareholder of the company's profit after tax deductions, in addition, earnings per share are calculated by dividing the net profit minus the preferred stock's share of the profits on the average number of shares outstanding during the year.

Through the above, the researchers believes that the earnings per share is one of the important ratios that measure the extent of the management's success in achieving profit for shareholders, especially that the earnings per share ratio shows the value of the company, where the company enjoys a high indicator of profitability as high evidence, and thus attracts more prospective investors.

## 3. Methodology and Procedure

The current study relied on the descriptive analytical approach to test the impact of the accounting conservatism on the financial performance of the services companies listed on Amman Stock Exchange.

The methodology and procedures as follow:

1. The 44 service companies listed on the Amman Stock Exchange were identified, as they constituted the study population.
2. A sample of the study population of 23 companies, which constitutes 53% of the study population, was taken according to the following criteria:
- All companies that were subjected to a merger or acquisition process during the study period were excluded.
- Companies that not provide sufficient data are excluded.
- All companies that have been liquidated have been excluded.
3. The data of the study sample was taken from the Amman Stock Exchange.
4. The financial analysis of the companies was done.
5. The accounting conservatism was measured according to the scale (Givoly & hyan, 2000) according to the following equation: CONACC= (NIO+DEP-CFO)*(-1)/TA

Where:
CONACC: accounting conservatism.
NIO: net operating income.
DEP: depreciation period.
CFO: cash flow operating.
TA: Total assets at the end of the period.

A negative CONACC value indicates an accounting conservatism, and the company's accounting conservatism increases with that negative value (based on negative accruals).

The rate of return on equity (ROE) = net profit / equity has also been calculated.

Model 1: ROE = $\boldsymbol{a}_0 + \boldsymbol{a}_1$ CONACC + E

Where:
ROE: Return on Equity
a0: Constant limit coefficient
a1: coefficient of the first variable (accounting conservatism)
CONACC: accounting conservatism
E: Error Term
As for earnings per share (EPS) = net profit / number of shares outstanding during the year.
Model 2:
EPS = $a_0 + a_1$ CONACC + E
Where:
EPS: Earnings Per Share
a0: Constant limit coefficient
a1: coefficient of the first variable (accounting conservatism)
CONACC: accounting conservatism
E: Error Term
A number of tests were carried for the purpose of the study:

- The Levin-Lin-Chu (LLC) test, in order to test the stability of the data to examine the hypothesis claiming that the variables contain a unit root.
- The Durbin-Watson Test to examine the phenomenon of autocorrelation of the study hypotheses.
- Measures of central tendency and measures of dispersion such as mean, large, small, and standard deviation to describe the study variables.
- Simple linear regression to study the impact of the independent variable on the dependent variables.

### 3.1 *Data analysis and hypothesis testing*

#### 3.1.1 *Description of the study variables*

This part of the analysis presents descriptive statistics for the dependent and independent variables of the study, based on the annual financial statements of services companies listed on Amman Stock Exchange, for the period (2015-2019).

First: the dependent variable: financial performance indicators:

The following tables show the most important descriptive statistics for the independent variable (financial performance) with its indicators (rate of return on equity and earnings per share), including: mean, standard deviations, the small and large value for each of the variables as well, which came as follows:

**The rate of return on equity:**

**Table 1:** Descriptive statistics of the rate of return on equity for the period (2015-2019)

| Year | Minimum value | Maximum value | Mean | Standard deviation |
|---|---|---|---|---|
| 2015 | -0.058 | 0.339 | 0.093 | 0.079 |
| 2016 | 0.008 | 0.418 | 0.113 | 0.096 |
| 2017 | -0.216 | 0.399 | 0.096 | 0.111 |
| 2018 | 0.016 | 0.340 | 0.113 | 0.088 |
| 2019 | 0.001 | 0.424 | 0.104 | 0.104 |
| Total Amount | -0.216 | 0.424 | 0.104 | 0.095 |

It can be seen from Table (1) that the general mean of the return on equity rate for the period (2015-2019), reached (0.104), with a standard deviation of (0.095).

**Earnings per share:**

**Table 2**: Descriptive statistics of earnings per share for the period (2015-2019)

| Year | Minimum value | Maximum value | Mean | Standard deviation |
|---|---|---|---|---|
| 2015 | -0.055 | 2.35 | 0.249 | 0.477 |
| 2016 | 0.011 | 1.13 | 0.219 | 0.251 |
| 2017 | -0.080 | 1.26 | 0.208 | 0.270 |
| 2018 | 0.014 | 2.15 | 0.273 | 0.441 |
| 2019 | 0.001 | 1.09 | 0.217 | 0.292 |
| Total Amount | -0.080 | 2.35 | 0.233 | 0.353 |

Table (2) points out the general mean of earnings per share for the period (2015-2019), reached (0.233), with a standard deviation of (0.353).

Second: The independent variable: Accounting Conservatism:

The frequencies and percentages of the accounting conservatism of the study sample companies were extracted during the period (2015-2019), Table No. (3) illustrates this.

**Table 3:** Frequencies and percentages of accounting conservatism for the study sample companies during the period (2015-2019)

| Year | | Frequency | Percentage |
|---|---|---|---|
| 2015 | Exist | 16 | 69.6 |
| | Doesn't exist | 7 | 30.4 |
| 2016 | Exist | 18 | 78.3 |
| | Doesn't exist | 5 | 21.7 |
| 2017 | Exist | 16 | 69.6 |
| | Doesn't exist | 7 | 30.4 |
| 2018 | Exist | 15 | 65.2 |
| | Doesn't exist | 8 | 34.8 |
| 2019 | Exist | 14 | 60.9 |
| | Doesn't exist | 9 | 39.1 |
| Total amount | Exist | 79 | 68.7 |
| | Doesn't exist | 36 | 31.3 |

Table No. (3) shows the percentage of practicing the accounting conservatism during the study period was (68.7%), while the percentage of not practicing the accounting conservatism was (31.3%).

The mean, standard deviations, and the small and large value of the accounting conservatism of the study sample companies were extracted during the period (2015-2019), Table No. (4) illustrating this.

**Table 4:** Descriptive statistics for accounting conservatism for the period (2015-2019)

| Year | Large value | Small value | Mean | Standard deviation |
|---|---|---|---|---|
| 2015 | -0.245 | 0.314 | -0.007 | 0.093 |
| 2016 | -0.123 | 0.114 | -0.028 | 0.054 |
| 2017 | -0.179 | 0.073 | -0.035 | 0.061 |
| 2018 | -0.144 | 0.058 | -0.027 | 0.051 |
| 2019 | -0.134 | 0.233 | -0.006 | 0.078 |
| Total Amount | -0.245 | 0.314 | -0.021 | 0.069 |

It can be noted from Table (4) that the general mean of accounting conservatism for the period (2015-2019), reached (-0.021), with a standard deviation of (0.069).

### 3.2 Testing the study hypotheses

The first sub-hypothesis Ho1: There is no statistically significant impact at the significance level α≤0.05) for the accounting conservatism on the rate of return on equity in services companies listed on Amman Stock Exchange.

To check the validity of this hypothesis, a simple regression equation was applied to study the impact of the accounting conservatism on the rate of return on equity in services companies listed on Amman Stock Exchange, and Table No. (5) shows this.

**Table 5:** Results of the first sub-hypothesis test Ho1

| Dependent variable | Coefficient | | | | |
|---|---|---|---|---|---|
| | Statement | B | Standard deviation | Calculated T | Sig t |
| Rate of return on equity | Regression stability | 0.108 | 0.009 | | |
| | Accounting conservatism | 0.236 | 0.127 | 1.86 | 0.066 |
| Correlation coefficient R | 0.172 | | | | |
| Determination coefficient R2 | 0.030 | | | | |
| Correction coefficient AdjR2 | 0.021 | | | | |
| Calculated F value | 3.44 | | | | |
| Sig. F | 0.066 | | | | |

The results of Table (5) indicate the rejection of the first alternative sub-hypothesis, and the acceptance of nihilism, which states: There is no statistically significant impact at the significance level (α≤0.05) for the accounting conservatism on the rate of return on equity in the services companies listed on Amman Stock Exchange. Second sub-hypothesis Ho2: There is no statistically significant impact at the significance level (α≤0.05) for the accounting conservatism on earnings per share in the services companies listed on Amman Stock Exchange. To verify the validity of this hypothesis, the simple regression equation was applied to study the impact of the accounting conservatism on the earnings per share in the services companies listed on Amman Stock Exchange. Table No. (6) shows this.

**Table 6:** Results of the second sub-hypothesis test Ho2

| Dependent variable | Coefficient | | | | |
|---|---|---|---|---|---|
| | Statement | B | Standard deviation | Calculated T | Sig t |
| Earnings per share | Regression stability | 0.244 | 0.034 | | |
| | Accounting conservatism | 0.516 | 0.478 | 1.08 | 0.283 |
| Correlation coefficient R | 0.101 | | | | |
| Determination coefficient R2 | 0.01 | | | | |
| Correction coefficient AdjR2 | 0.001 | | | | |
| Calculated F value | 1.16 | | | | |
| Sig. F | 0.283 | | | | |

The results of Table (6) highlight the rejection of the second alternative sub-hypothesis, and the acceptance of nihilism which states: There is no statistically significant impact at the significance level (α≤0.05) for the accounting conservatism on earnings per share in the services companies listed on Amman Stock Exchange.

Based on the foregoing, the main hypothesis is accepted in the nihilism, which states: There is no statistically significant impact at the significance level (α≤0.05) for the accounting conservatism on the financial performance of the services companies listed on Amman Stock Exchange.

## 4. The Study Findings

The study reached the following findings:

The services companies examined in this research practice in a reasonably well way of accounting conservatism, with a variation in the degree of conservatism among companies. This was confirmed by previous studies, in terms of the different degree of application of accounting conservatism from any other company and from one sector to another. There is no impact of accounting conservatism on both the rate of return on equity (ROE) and earnings per share (EPS) in the services companies listed on Amman Stock Exchange; This study contradicted some previous studies, especially the study of Purnama, (2019) showed a positive impact of accounting conservatism on the return on assets (ROA) .Because financial and industrial companies are more conservative, as they represent high investments, unlike service companies, as in this study, in which the amount of investment is less. And The accounting conservatism contributes to assisting investors in making their decisions, by obligating the management to implement conservative accounting policies, considerably being subjected to legal accountability, and of opportunistic behavior that the management may consider following, thus protecting investors and the emergence of financial indicators honestly and not being exposed to manipulation by management, maintaining the company's financial returns, and maximizing profitability, in line with the explanation of the judicial proceeding in the regards of the accounting conservatism.This is confirmed by a study of Abu Hudaib, (2018), it showed statistically significant differences between the highly profitable Jordanian public shareholding industrial companies in practicing accounting conservatism. With regard to investment, and the study of Lara et al., (2016) showed that more conservative companies invest and issue further debt in environments prone to underinvestment.

## 5. Conclusion and Recommendations

This study aimed to identifying the impact of accounting conservatism on financial performance in services companies listed on Amman Stock Exchange, where the accounting conservatism was measured through the model of (Gvoly & Hyans, 2000), an approach that based on accruals, while the financial performance was measured through the return on equity (ROE), and earnings per share (EPS). And in order to achieve the objectives of the study, the descriptive and analytical approach was adopted, where the study was conducted on a sample of (23) service companies listed on Amman Stock Exchange during the period from 2015 to 2019. Also, in respect of analyzing the study data and test its hypotheses, the statistical analysis program (SPSS) was utilized, and simple regression equation was relied on in testing the hypotheses.

In light of the previous results, the study recommends the following:

First: Urging the management of the researched services companies listed on Amman Stock Exchange, especially those characterized by a low accounting conservatism to apply the principles and standards of the accounting conservatism out of the importance of these procedures on the quality of financial reports and consequently profits. Second: The necessity for services companies listed on Amman Stock Exchange to adopt the appropriate accounting principles for the purposes of measuring revenues at the small value, measuring obligations at the large value among the existing values, and recognizing losses quickly if they occur and not being deferred. Third: The services companies listed on Amman Stock Exchange adopt methods and policies that aim to increase the level of governance application in order to maximize the volume of their production and increase the company's returns, and thus increase the share of profits. Fourth: Conducting more future studies that deal with the impact of accounting conservatism on other indicators of financial performance, including (return on assets) in services companies listed on Amman Stock Exchange and in other business sectors.

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