

**Accounting Conservatism in International Accounting Practices**Benaziza Khadidja<sup>1\*</sup>, Lekhchine Abir<sup>2</sup><sup>1</sup> ECOFIMA Laboratory, University of 20 August 1955 Skikda (Algeria), [kh.benaziza@univ-skikda.dz](mailto:kh.benaziza@univ-skikda.dz)<sup>2</sup> SFKE Laboratory, University of 20 August 1955 Skikda (Algeria), [a.lekhchine@univ-skikda.dz](mailto:a.lekhchine@univ-skikda.dz)

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**Abstract:**

The phenomenon of accounting conservatism when preparing financial statements has become widespread, as it is the cornerstone of accounting practices, therefore, this study aimed to identify the reality of accounting conservatism in international accounting practices. In order to achieve this, the study was divided into four elements, first identifying accounting conservatism and its importance, then addressing the practice of accounting conservatism policy under international financial reporting standards, the financial accounting system, and after the issuance of the Sarbanes-Oxley Act, relying on various sources of books, magazines and previous Arab and foreign studies to take note of various aspects of the subject.

The study concluded that accounting conservatism plays an important role in reducing information asymmetry, as it is one of the qualitative characteristics of accounting information, and the need for it has increased with the emergence of agency theory, after the series of collapses witnessed by major international companies. Despite criticism by leading accounting bodies, and its abandonment in the conceptual framework of the 2010 financial report, most accounting standards and legislation stipulate the necessity of practice accounting conservatism, by adopting a less pessimistic view under conditions of doubt and uncertainty.

**Keywords:** Accounting conservatism, International Financial Reporting Standards, Sarbanes-Oxley Act, Financial Accounting System.

**JEL classification:** M40, M41.

## التحفظ المحاسبي في الممارسات المحاسبية الدولية

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ملخص:

عرفت ظاهرة التحفظ المحاسبي عند إعداد القوائم المالية انتشارا واسعا، باعتباره حجر الأساس للممارسات المحاسبية، لذا فقد هدفت هذه الدراسة إلى التعرف على واقع التحفظ المحاسبي في الممارسات المحاسبية الدولية. ومن أجل تحقيق ذلك تم تقسيم الدراسة إلى أربع عناصر، أولا التعرف على التحفظ المحاسبي وأهميته، ثم التطرق لممارسة سياسة التحفظ المحاسبي في ظل معايير التقرير المالي الدولية، والنظام المحاسبي المالي، وبعد صدور قانون ساربينز أوكسلي، بالاعتماد على مختلف المصادر من الكتب والمجلات والدراسات السابقة العربية والأجنبية للإحاطة بمختلف جوانب الموضوع. خلصت الدراسة إلى أن التحفظ المحاسبي يلعب دورا مهما في التقليل من عدم تماثل المعلومات، باعتباره أحد الخصائص النوعية للمعلومات المحاسبية، وقد تزايدت الحاجة إليه مع ظهور نظرية الوكالة، بعد سلسلة الانهيارات التي شهدتها كبريات الشركات العالمية. فرغم الانتقادات الموجهة له من طرف الهيئات المحاسبية الرائدة، والتخلي عنه في الإطار المفاهيمي للتقرير المالي لعام 2010، إلا أن أغلب المعايير والتشريعات المحاسبية نصت على ضرورة ممارسة التحفظ المحاسبي، من خلال تبني نظرة أقل تفاؤلا في ظل ظروف الشك وعدم اليقين.

الكلمات المفتاحية: التحفظ المحاسبي، معايير التقرير المالي الدولية، قانون ساربينز أوكسلي، النظام المحاسبي المالي.

تصنيف (JEL): M40, M41

## **1. Introduction**

After the recent financial crises at the beginning of the twenty-first century, and the consequent collapse of many giant companies such as the energy company ENRON and the communications company WORLD COM, and the resulting huge financial losses borne by stakeholders, as a result of the opportunistic behavior of managers, which led to the absence of credibility and transparency in the financial statements, which opened the door to accounting manipulation, whether based on accounting policies and estimates or through impulsive accounting. All of this led investors and related parties to demand the need to adhere to the accounting conservatism, which was accompanied by the emergence of agency theory, as the cornerstone of various accounting practices, in order to restrict the freedom to choose and apply policies, and the flexibility of accounting estimates under conditions of doubt and uncertainty, which requires the accountant to exercise personal judgment in the estimation processes while taking a less optimistic view when preparing financial statements, so that it does not result in inflating assets and revenues, and reducing liabilities and expenses, which made the Professional organizations concerned with issuing accounting standards adhere to the reservation within some standards despite their deletion from the conceptual framework of the financial reporting.

As for Algeria, the Algerian legislator has imposed a set of laws and legislations to ensure the credibility of financial statements by obliging Algerian institutions to an acceptable level of accounting conservatism, which the financial accounting system considered to be one of the principles of accounting and called it the term precedence.

### **1.1. problem of the study**

In light of the above, the problem of research can be raised in the following question:

To what extent can international accounting practices be considered conservative?

### **1.2. The importance of the study**

The importance of the study stems from the fact that accounting conservatism is one of the interesting topics, as it is one of the qualitative characteristics of information, and the cornerstone of various accounting practices, which can affect the judgment and decision-making of the performance of institutions by shareholders, other creditors or related to them.

### **1.3. Objectives of the study**

This study aims to achieve the following objectives:

- Identify accounting conservatism and its importance;
- Determining the conservativeness of international financial reporting standards;
- Determine the extent of the conservativeness of the accounting policies of the financial accounting system

## **2. Previous studies**

### **1.2. Sharaga Study (2018)**

This study examined the relationship between the International Financial Reporting Standards (IAS/IFRS) and the concept of accounting conservatism by focusing on several standards (IFRS3, IAS38, IAS37, IAS36, and IAS2), and concluded that the issuance of accounting standards has effectively affected the practice of accounting conservatism, despite objections. However, some accounting standards explicitly included it in their texts.

### **2.2. Hellman Study (2008)**

This study aimed to investigate how to apply the principle of accounting conservatism in accordance with International Financial Reporting Standards, it also addressed some of the effects of administrative control on the level of accounting conservatism, and concluded that despite the lack of direct confirmation of the practice of accounting conservatism in accordance with the International Financial Reporting Standards, accounting conservatism still needs to deal with the uncertainties that companies face when preparing their accounts.

### **2.3. Pham Study (2009)**

This study aimed to explore accounting conservatism in International Financial Reporting Standards and Generally Accepted Accounting Principles, while determining whether these standards are more conservative than Generally Accepted Accounting Principles, and the study found that companies that apply IFRS are more conservative than companies that apply GAAP.

### **2.4. Zhang Study (2008)**

This study aimed to analyze the impact of the adoption of International Financial Reporting Standards on the quality of profits calculated through accounting conservatism, and found that there is an increase in accounting conservatism after the adoption of IFRS, in addition to a positive impact on the quality of profits.

### **2.5. Ermina & Sarumpaet study (2019)**

This study aimed to investigate the impact of the adoption of International Financial Reporting Standards and its impact on the application of the principle of conditional and unconditional accounting conservatism, and found that there is a negative impact of the adoption of IFRS on unconditional conservatism, while there is a positive impact on conditional conservatism.

### **2.6. Cerqueira & Pereira study (2020)**

This study examined the impact of the adopting international financial reporting standards and changes in economic conditions on accounting conservatism, where the level of accounting conservatism was studied before and after the adoption of international standards for the period before and after the financial crisis 2008, and the study found that the flexibility provided by international financial reporting standards, they allow adjusting the level of accounting conservatism when economic conditions change, so that the results of the study represented a joint effect of adopting international standards and economic conditions, with a decrease in the level of accounting conservatism in the period Before the crisis, followed by a significant increase in accounting conservatism after the crisis.

## **3. Conceptual framework of accounting conservatism**

Accounting conservatism is one of the first concepts that appeared in the field of accounting, and its impact on accounting practices dates back to at least five hundred years ago amid waves of doubt in financial reports, and this is what led to its commitment in order to distinguish companies in the degree of transparency of their financial statements and preserve their accounting principles

### **3.1. Definition of accounting conservatism**

Basu interprets accounting conservatism as the tendency of accountants to obtain a higher degree of verification when recognizing good news as gains compared to recognizing bad news as losses (Hamida, 2013, p. 144), and El-Shirazi (1990, p. 102) touched on the characteristic of caution and caution, which he considered a representation of the traditional trend of accounting in the trade-off between various alternative accounting methods, as it is applied in professional practices by seeking to choose different alternatives to accounting policies and methods in a way that leads to not exaggerating the value of the income of the accounting period. That is, reducing profits in the income statement, as well as reducing asset values and maximizing the values of liabilities in the balance sheet (Matar, 2004, p. 54).

The American Financial Accounting Standards Board (FASB) has provided a definition of accounting conservatism that a conservative uses less optimistic estimates to estimate amounts to be received or paid in the future (Zhang, 2008, p. 12), and is a rational reaction to uncertainties to ensure that uncertainties and potential risks are taken into account (Ruch & Taylor, 2015, p. 20). The International Accounting Standards Board (IASB) also addressed the concept of accounting conservatism as a qualitative characteristic of accounting information (Nguyen et al., 2022, p 287), which emphasized the need to exercise a degree of caution when

making the required estimates under conditions of uncertainty (Wang, 2009, p. 27), such as not overvaluing assets or profits, and not overvaluing expenses and liabilities (Leune, 2014, p. 29), so that these practices can help managers achieve impartiality in the application of accounting policies, and thus achieve honest representation of financial reports (Kimouche, 2021, p. 58).

There are many opinions of researchers on the concept of accounting conservatism, as it was emphasized that there is a difference between the terms "conservatism" and "caution", as the first term is used in American versions, while the second term is used in international versions, which means avoiding the formation of secret reserves or additional provisions, or an increase in assets or a reduction in liabilities (Feraj, 2019, p. 121), and Hendricksen also touched on the definition of accounting conservatism as the inclusion of accountants in their reports the lowest values of assets and the highest values of obligations, with the obligation to Recognition of expenses without delay, while postponing the recognition of revenues until they are realized (Bouzid, Ben Lamari, 2023, p. 346), while Sarawi (2019, p. 11) believes that accounting conservatism is to avoid overvaluation of assets while showing them conservatively when preparing financial statements, which requires the adoption of the least optimistic measure in the event of doubt in the estimation of liabilities.

Through the above, we conclude that despite the different views on the definition of accounting conservatism, it involves one position, which is the non-optimistic view of the accountant, by accelerating the recognition of potential losses and burdens, and postponing the recognition of profits and revenues until they are actually realized, taking into account not to exaggerate the composition of provisions, provisions and reserves.

### 3.2.Types of accounting conservatism

The literature distinguished between two types of accounting conservatism:

**A. Contingent accounting conservatism:** Also called post-conservatism, it expresses the inconsistent timing in the recognition of unrealized losses against gains, i.e. the recognition of bad news is faster than the recognition of good news (Shalan, 2019, p. 465), it is related to possible economic events, which result in a decrease in the book value of assets in the case of unwanted events (Bouzid, Ben Lamoudi, 2023, p. 346), but these book values may not be able to rise again despite Other appropriate events occur (Al-Hennawi, 2018, p. 10).

**B. Unconditional accounting conservatism:** also called previous conservatism or non-news-based reservation (Bouderbela, Harrouchi, 2021, p. 42), and arises from the application of generally accepted accounting principles, which leads to a reduction in profits independently of current economic news (Mashhadani, Anmar, 2014, p. 364), and represents the decrease in the book value of net assets relative to their economic value, regardless of any news, and therefore does not depend on market news or future events, but results from the choice of methods Accounting policies used to measure and record assets at book values below their market value over their lifetime, resulting in unrecorded goodwill (Al-Anssari, Al-Tamimi, 2023, p 5400)

Type of accounting conservatism	Examples
Conditional conservatism	- Low value of goodwill - Decrease in long-term asset values - Valuing inventories at cost or market, whichever is lower.
Unconditional conservatism	- Recognizing development expenses as assets - capitalization of borrowing expenses.

Source: Necira et al. (2021, p. 610)

### **3.3. Motives for accounting conservatism**

The motivation for the demand for the use of accounting conservatism is due to the following:

**A. Contractual motives:** Contractual motives are one of the most important motives presented by pioneers of accounting thought, as the majority of studies relied on two basic types of contracts: debt contracts and management incentive and reward contracts (Tiriat, Chalabi, 2022, p. 9).

-Debt contracts: The lender benefits from the borrowing company's use of accounting conservatism when preparing the financial statements to ensure that the loan value is repaid by paying interest and loan installments on their specified date, and helps to send warning signals to lenders in a timely manner in case of exceeding the terms of the loan contract (Al-Najjar, 2014, p. 184).

- Management remuneration and dividend contracts: The manager's reputation, remuneration, share price and future are significantly affected by the financial statements and accounting contracts, which leads to administrative motives restricting the practice of accounting conservatism or profit management, which is reflected in the quality of financial reporting (Kezzal et al., 2019, p. 236).

**B. Tax motives:** In order to avoid paying taxes on undue profits, the administration reduces taxable income to reduce the value of taxes due, so reticence in declaring profits and the highest values of assets is the way to do so (Al-Amor, 2021, p. 141).

**C. Judicial motives:** The policy of accounting conservatism must be exercised to counter the risk of prosecution, so that the likelihood of lawsuits increases when net profits and net assets are significantly overstated (Iqbal, Al-Qudat, 2014, p. 904).

**D. Organizational motives:** These are those motives that determine the organizational form of the accounting profession and how to prepare accounting principles and policies (Kezzal, Zergoune, 2018, p. 17), and the methods of accounting organization are one of the reasons that led to increased conservatism, as the issuance of standards has an impact on accounting conservatism by increasing or decreasing, and the instructions of the financial report are also motives for accounting conservatism (Al-Kaabi, 2016, p. 475).

### **3.4. Pros and cons of accounting conservatism**

The subject of accounting conservatism has two directions: the defending trend and the trend opposed to its application, and therefore the advantages and disadvantages of using accounting conservatism can be addressed as follows:

-Accounting conservatism improves the quality of information and profits, as it reduces the opportunistic behavior of management, and increases the reliability of accounting information (Abu Hamida, 2017, p. 32);

- Accounting conservatism spares accountants the risk of publishing accounting information that may be erroneous later, and the risk of not publishing accounting information that may be correct;

- Users of financial statements need a margin of safety to protect themselves from any adverse results, so they prefer conservative figures because they believe that unqualified figures may lead to negative results (Iqbal, Al-Qudat, 2014, p. 902);

- Evaluate the quality of profits, which is a natural consequence of conservative accounting policies, because it ensures the clarity of disclosures in explaining accounting policies, and the assumptions on which accounting estimates are based (Bouderbala, Harrouchi, 2021, p. 43).

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The subject of accounting conservatism has two directions: the defending trend and the trend opposed to its application, and therefore the advantages and disadvantages of using accounting conservatism can be addressed as follows:

**A. Pros of Accounting Conservatism:** The advantages of practicing accounting conservatism are due to the following reasons:

- Accounting conservatism is a tool to counter the excessive optimism of the accountant in valuing the assets and liabilities of the enterprise, as it is an appropriate means of addressing the uncertainty facing accountants;
- Accounting conservatism improves the quality of information and profits, as it reduces the opportunistic behavior of management, and increases the reliability of accounting information (Abu Hamida, 2017, p. 32);
- Accounting conservatism spares accountants the risk of publishing accounting information that may be erroneous later, and the risk of not publishing accounting information that may be correct;
- Users of financial statements need a margin of safety to protect themselves from any adverse results, so they prefer conservative figures because they believe that unqualified figures may lead to negative results (Iqbal, Al-Qudat, 2014, p. 902);
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**B. Cons of accounting conservatism:** It can be summarized in the following points:

- Accounting conservatism conflicts with certain qualitative characteristics of accounting information, such as relevance, consistency, impartiality and comparability;
- Accounting conservatism distorts accounting information by showing elements of the financial statements at values different from their real values (Madbouly, 2017, p. 17);
- Accounting conservatism leads to the predominance of the interest of creditors at the expense of shareholders, resulting in increased agency problems;
- The adoption of lower asset values and higher values of liabilities in accordance with accounting conservatism is contrary to the imposition of periodicity, by detrimental to the interests of shareholders by reducing the profits of some shareholders in a given accounting cycle for the benefit of other new shareholders in future cycles (Barbekh, 2019, p. 41);
- Accounting conservatism is a means in the hands of accountants to protect themselves from the accountability they may be exposed to, without regard to whether this procedure achieves the interests of other parties or harms them (Bouderbala, Harrouchi, 2021, p. 43).

## **4. Accounting conservatism under IFRS**

Although the conceptual framework of the financial report does not address the term accounting conservatism, many international financial reporting standards include conservative accounting practices explicitly or implicitly, and the following are some of these standards:

#### **4.1. IAS2 Stocks**

Inventories are measured at cost or net realizable value, whichever is lower, as the cost includes all purchase and conversion costs and any other expenses spent to bring inventory, however a provision for impairment of inventory may be required when its cost becomes not fully recoverable (Al-Subh, 2009, p. 93), which is consistent with the conservatism policy.

#### **4.2. IAS8 Accounting Policies, Changes in Accounting Estimates and Errors**

The purpose of this standard is to determine the controls for the selection and application of accounting policies, changes therein, disclosure of accounting estimates and correction of errors in previous cycles (Mashkour, 2014, p. 85). It states that in the absence of standards or interpretations that are specifically applicable to a particular event or process, management should use its own jurisprudence in developing and implementing accounting policies, based on the definitions and standards of recognition and measurement in the IASB conceptual framework, with the possibility of resorting to recent versions of bodies preparing standards that adopt a similar conceptual framework (Hamidat, 2019, p. 111). Therefore, it can be said that the fact that this standard allows the organization to adopt accounting policies that lead to appropriate and reliable information based on its personal discretion is evidence of the application of the principle of prudence and caution in circumstances of uncertainty.

#### **4.3. IAS12 Deferred Taxes**

IAS12 states that deferred tax assets must be recognized to carry forward unused tax losses to the extent that a future tax profit is likely to be available that can be leveraged against the loss. In many European countries, deferred tax assets related to carry-forward losses are not recognized due to uncertainty about whether or not future tax profits will exist, and thus the IAS12 accounting method will reduce net assets and thus represent conservative accounting treatment (Hellman, 2008, p. 80).

#### **4.4. IAS16 Property, Plant and Equipment**

This standard aims to describe the accounting treatment of property, plants and equipment that contribute effectively to the various activities of the institution, the budget of any institution is hardly devoid of the existence of these assets, as they are recorded when owned at cost, which includes all the costs necessary until the asset is ready for use, and the international accounting standard IAS16 allows when subsequent measurement to use the cost model as well as the revaluation model. The standard requires measuring fair value accurately and reliably (Abu Nassar, Hamidat, 2016, p. 237) in the case of using a fair value model, but in the case of using a cost model, revenue is not allowed to be recognized unless it is actually realized and vice versa for liabilities, as every potential expense must be recorded, but this does not mean the formation of exaggerated provisions, and therefore it ensures that profits are not overestimated or financial position is improved (Ashour, 2006, p. 98), which is consistent with the essence of accounting conservatism.

#### **4.5. IAS36 Impairment of Assets**

The criterion applies in case of a decrease in the values of assets such as property, equipment, goodwill... etc., in addition to ensuring that non-current assets, whether tangible or intangible, are not recorded with values exceeding their recoverable values, specifying how to calculate the recoverable value as well as impairment losses on assets and how to measure them, explaining how to determine the impairment of goodwill (cash generating units method), and determining disclosure requirements related to impairment (Jaarat, 2015, p. 98). IAS36 can be considered to be the most compliant standard with the policy of accounting conservatism aimed at accelerating the recognition of losses before they are realized and postponing the recognition of gains until they are realized, which came in application of the conditional accounting conservatism method, which is concerned with news about economic conditions, through impairment indicators.



#### **4.6. IAS37 Allocations, Liabilities and Contingent Assets**

The purpose of this standard is to recognize, measure and disclose provisions for provisions, liabilities and contingent assets so that users of the financial statements can understand their nature, timing and amounts (Abbas et al., 2008, p. 276). Provisions are one of the practical applications of the accounting conservatism policy, and this is associated with the element of uncertainty in terms of the difficulty of determining the value of the amounts related to them and the timing of their occurrence, and the international accounting standard IAS37 has tried to describe the appropriate accounting treatment and disclosures required for each of the provisions and potential assets and liabilities, and clarifies the total circumstances that lead to the recognition and accounting recording of provisions, and also aims to ensure the application of standards and bases for accounting recognition of provisions, liabilities and potential assets, as potential assets are not recognized in Financial statements, because it leads to the recognition of revenue that may be impossible to achieve, but when revenue is realized, the asset associated with it is not a potential asset, and it is appropriate to recognize it, and therefore it can be said that the non-recognition of potential assets and taking uncertainties into account through the formation of provisions indicates a high practice of accounting conservatism (Cheraga, 2018, p. 166).

#### **4.7. IAS38 Intangible Assets**

An intangible asset is a non-monetary asset that does not have a tangible entity, controlled by the enterprise and which achieves economic benefits (trademarks, software, copyrights, patents, goodwill... etc). In order for an intangible asset to be recognized, it must be expected to achieve future economic benefits with the possibility of accurately measuring its cost, as it is later measured according to a cost model that corresponds to the accounting conservatism or revaluation model (Abu Shamala, 2010, p. 197).

This standard was first issued in 1998, followed by a revised version effective March 31, 2004, where intangible assets arising from development must be recognized as assets, taking into account that many of the specific recognition criteria have been met, such as proof of technical feasibility to complete an intangible asset that is available for sale or use from the date on which all criteria are met, and the enterprise must capitalize the development costs incurred and charged directly to expenses when incurred under several of accounting systems, and therefore IAS38 increases net assets and thus represents less conservative accounting treatment (Hellman, 2008, p. 15)

#### **4.8. IFRS3 Business Merger**

Article 7 of IFRS3 stipulates the accounting treatment of goodwill, which is determined by the increase in the cost of purchase over the fair value of the net assets purchased, and is not amortized annually, but is examined annually to determine the decrease in their value, and the decrease is recognized as a loss in the income statement, which reflects accounting conservatism (Cheraga, 2018, p. 168).

#### **4.9. IFRS5 Non-current assets held for sale**

This standard includes the rules governing the treatment of non-current assets held for the purpose of sale and non-continuing operations, and related presentation and disclosure issues, in addition to the way in which non-current assets or abandoned assets classified as held for the purpose of sale are measured, so that they are measured at book value or fair value minus selling costs, whichever is less, but in the event that the fair value falls below the book value, the amount of the reduction must be immediately recognized as a loss of value in the income statement by the amount thereof. The decrease in the period in which it occurred, which falls within the policy of accounting conservatism (Trirat, 2022, p. 62).

## **5. Accounting conservatism under the issuance of the Sarbanes Oxley Act**

The Sarbanes-Oxley Act was passed on July 30, 2002, which provides sweeping changes in corporate governance and financial disclosure obligations to restore investor confidence, after major corporate crashes in which investors lost millions of dollars (He et al., 2008, p. 238).

### **5.1. Motives for the Sarbanes oxley Act**

After the corruption cases that emerged and the resulting financial crises and collapses suffered by many international companies in the United States of America, the United Kingdom and Europe, especially financial and accounting corruption, which had a negative impact in many areas, such as the economic one, which was characterized by great difficulties due to the huge financial losses incurred by shareholders, which negatively reflected on the credibility of the investee companies and capital markets, by the tendency of current and prospective investors to search for alternative investment exits, This led custodians at the national and international levels to conduct comprehensive and in-depth examinations to identify the main causes behind the occurrence of these crises and collapses (Al-Mashhadani, Anmar, 2014).

After the collapse of the American company Enron in 2001, which is one of the largest energy companies in the world, it was revealed that the "Arthur Anderson" audit office, which was tasked with auditing the company, also provides advisory services to the company at the same time, and this is evidence of the lack of impartiality and independence, as well as his collusion with management to combine these two tasks, in addition to carrying out the internal audit task of the company, by disclosing the company's financial statements, manipulating accounts, and disposing of many of the company's documents, which led to The firm, which was classified among the top five audit firms in the world, was released after being found guilty of financial and administrative corruption with senior managers and officials of Enron, and as a result, the Sarbanes-Oxley Act of 2002 confirmed that the audit function would not be combined with the provision of advisory services to the same firm (Sherigui, 2013, p. 276).

### **5.2. The concept and objectives of the Sarbanes-Oxley Law**

The Sarbanes-Oxley Act was introduced in 2002, as it was formed by reconciling the bill of Representative Oxley and Senator Sarbanes by the Conference Committee that was formed by the House of Representatives and the Senate of the United States of America, and thus the final bill was approved by the Conference Committee on June 24, 2002, and was called the Sarbanes-Oxley Act of 2002, and was later signed by President George W. Bush on July 30, 2002 (Li, 2015, p. 34), the aim was to restore integrity and credibility in the financial market by enhancing corporate accountability and improving the accuracy and reliability of corporate disclosures, requiring management to certify financial reports and forfeit any incentives it receives if the company is to reformulate financial reports (Chang et al., 2012, p. 34), in addition to improving the quality of financial reporting for public companies by strengthening internal control and increasing the powers of the independent auditor, as well as developing the activities of the audit committee and corporate executives, Monitoring accounting disclosure and improving corporate governance (Danon, Thabet, 2018, p. 285).

### **5.3. The role of the Sarbanes-Oxley Act in supporting accounting conservatism**

Some believe that the application of the American Sarbanes-Oxley Act led to an increase in accounting conservatism for companies listed on the stock exchange, as it was found that the level of accounting conservatism after the application of this law compared to the previous period of its application was high, and there was a noticeable decrease in optional entitlements, and these views confirm what some expect about the increased likelihood of companies being held accountable in the event of excessive inflating profits, which encourages accounting conservatism, although others have pointed out that it is not possible to impose There is also a possibility that the requirements of the Sarbanes-Oxley Act have contributed significantly to

changing the level of accounting conservatism, such as factors related to administrative aspects and management behavior, or factors related to environmental changes surrounding economic activity (Al-Ghoul, 2015, p. 29).

The main reforms included in the Sarbanes-Oxley Act that support accounting conservatism can be classified in making the audit committee responsible for monitoring the external auditor, specifying the conditions and fees for audit work and various other work, focusing on the independence of the external auditor, and obliging companies listed on the New York Stock Exchange to meet two items; the first provides for the appointment of three independent members of the company's board of directors to be determined by the audit committee, and the second includes determining the auditor's fees, and this is what a study found. Labo & Zahou on the increasing accounting conservatism in the financial statements of US companies after the law, due to the legal responsibilities it added to the auditor and management (Iqbal, Qudat, 2014, p. 905).

## **6. Practice of accounting conservatism under the financial accounting system**

Although the SCF Financial Accounting System did not explicitly provide for the concept of accounting conservatism as an accounting principle, Article 14 of Executive Decree No. 08-156 of May 20, 2008 implementing the provisions of Law 11-07 containing the Financial Accounting System addressed it through the term precaution, as the text of the article included that accounting must respond to the principle of prudence, which leads to a reasonable assessment of facts under conditions of doubt and uncertainty, in order to confront the risk of existing doubts. For the future, it would burden the property and results of the institution with debts, while not overestimating assets and revenues, and not reducing obligations and burdens, so as not to lead to the formation of hidden or exaggerated reserves and provisions.

### **6.1. General rules for valuation and inclusion in accounts**

The decree of 26 July 2008 establishing the rules of valuation and accounting, the content and presentation of financial statements, as well as the Code of Accounts and the rules for their operation, referred to the concept of accounting conservatism as follows:

**A. Burdens:** According to paragraph 4.111, the burdens clearly indicated in terms of their subject and likely to occur due to events that have occurred or are occurring result in the formation of reserves, so that these reserves are converted into results when the motives that led to their formation disappear, and therefore the financial accounting system requires the need to form reserves for potential burdens, and this ensures the existence of an accounting conservatism policy.

**B. Historical cost:** According to paragraph 1.112, the method of valuation of elements recorded in the accounts is generally based on historical cost, which corresponds more to accounting conservatism than to other valuation bases.

**C. Impairment of asset values:** According to paragraph 7.112, if the collectible value is less than the net accounting value of any asset, the latter must be returned to its collectible value, since an excess of the net accounting value over the collectible value is considered a loss of value, as stated in paragraph 8.112 that the loss of value for any asset shall be recognized as a burden of accounts.

### **6.2 Special rules for valuation and inclusion in accounts**

**A. Intangible and intangible fixations:** paragraph 10.112 states that a loss of value is recognized if the collectible value of any fixation is less than its net accounting value, by returning this value to the collectible value, as stated in paragraph 15.112 that research expenses or expenses resulting from the research phase of an internal project are included as charges in the accounts when they are due and cannot be capitalized, which is a clear practice of the accounting conservatism policy.

**B. Inventories:** Paragraph 5.123 stipulates that pursuant to the principle of precaution and caution, inventories are valued at their cost or net completion value, whichever is less, noting that the net completion value is the estimated selling price after subtracting the completion and sale costs, and therefore any loss in the value of stocks is included as a burden in calculating the results when the cost of inventory is greater than the net value of its completion, so that according to the principle of caution and caution, the financial accounting system has stipulated that the inventory is provided at cost or market, whichever is lower, and this indicates the express practice of the accounting conservatism policy

## **7. Conclusion**

The aim of this study is to identify the policy of accounting conservatism in various international accounting practices, because of its great importance in the quality and credibility of information, where after studying the theoretical aspect of accounting conservatism, the following results were reached:

### **7.1. Results**

- Accounting conservatism is one of the qualitative characteristics of accounting information that contributes to increasing its credibility;
- Accounting conservatism contributes to reducing information asymmetry as a means of addressing uncertainties facing accountants;
- The policy of conservatism does not overestimate assets and income, while not underestimating liabilities and liabilities, without creating excessive provisions;
- The need for a policy of accounting conservatism was accompanied by the emergence of agency theory after the financial crises and the series of collapses experienced by the largest companies in the world;
- Despite explicit opposition to the policy of accounting conservatism by IASB and FASB and its removal from the conceptual framework of financial reporting, many IFRS still contain practices that are compatible with accounting conservatism;
- The increased level of accounting conservatism in the financial statements after the issuance of the Sarbanes-Oxley Act because of the legal responsibilities added by the Act to the external auditor and management, such as the formation of the Audit Committee and making it responsible for the control and independence of the external auditor;
- Although the financial accounting system is devoid of the concept of accounting conservatism, it is addressed through the term prudence and caution, which leads to a reasonable assessment of facts under conditions of uncertainty and uncertainty.

### **7.2. Recommendations**

- Encourage institutions to adhere to the application of the accounting conservatism policy because of its impact on the quality and credibility of the financial statements;
- Raising awareness of users of financial statements on the importance of adopting the principle of prudence;
- Do not overuse the accounting conservative policy to avoid distortion of accounting information.

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