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Research Article

THE ROLE OF ACCOUNTING CONSERVATISM IN FINANCIAL DECISIONS OF COMPANIES

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ABSTRACT
The present research has been aimed to examine the role of accounting conservatism in financial decisions of companies. This study is an applied research in the view of aim and it is a correlation one in the view of method. Statistical universe of the research has included companies listed in Tehran Stock Exchange. To sample, Judgment Sampling Method (Systematic Elimination) has been used by observing special conditions, and ultimately after observing the above conditions and sampling of 490 companies in the Stock Exchange by the end of March 20' 2014, 98 companies were selected. The required information to examine was obtained through gathering data of the companies from their financial statements and Rahavard Novin software. Also, in order to analyze the data, Eviews software has been used. According to the findings from the research, it can be said, the results of the research are consistent and congruent with previous studies results indicating that the companies with more conservatism in reporting have less flexibility in their financial decisions that it is in line with Disorder in Information point of view.

Keywords: *Accounting Conservatism, Financial Decisions of Companies, Stock Exchange Market*

INTRODUCTION
Conservatism in financial reporting is obey the most obvious qualitative features of accounting and its economical role and permanent existence is mainly of a special place in research as well as legislative circles and scientific-specialized issues (FASB, 2005; Watts *et al.*, 2003). Standard setters prefer financial accounting information to be quite impartial and free of any bias. They disagree with considering conservatism concept as a desirable qualitative feature on accounting information in a conceptual framework (FASB, 2005). On the other hand, researchers argued that there is an accounting conservatism in reaction to accounting demand against timely information having validity credit which is able to reduce the problems of brokerage in the process of contracts and it is also responsible for the changes and transformations occurring in the legal and computing environments (Holthausen & Watts, 2001; Watts, 2003). As a whole, empirical studies conducted have provided evidences in support of leading and contractual roles of conservatism in both liquidity market (LaFond & Roychowdhury, 2008; LaFond & Watts, 2008) and debt market (Zhang, 2008), of course, although previous studies conducted, the role and benefits of accounting conservatism have been proven for lenders and borrowers in foreign financial contracts, a few studies have been conducted on how to form internal financial decisions of companies in the effect of conservatism in reporting. In 2010, Armstrong et al write in the article 'Review of Oneself' this way: "We suggest paying more attention to fundamental decisions and how financial reporting affects the financial decisions of companies in future studies".
Armstrong *et al.*, (2010) continues to note that " A few studies have been conducted on the role of financial reporting in ability to achieve financing methods by companies and in our opinion, this lack of research is related in part to difficulties with which companies face in borrowing and at the same time are not able to achieve their desired loan source and as a result, will not move toward debt market ".
In 2009, Loueis *et al.*, have examined the relationship between conservatism in accounting and valuation of liquidity possession market in companies and its results are supplementary
Financial Accounting Standards Board
Of a research by Jimmy (2012). They specially found that liquidity holdings are more valuable for the companies with more conservatism in reporting because in which being optimized leadership is associated with conservatism and this result can partially confirm the research's findings by Jimmy Lee,

indicating that conservative companies keep more amount of their liquidity. Of course, the results obtained by Loueis *et al.*, cannot completely explain the research's findings by Jimmy indicating that companies with more conservatism in reporting show less flexibility in issuing liquidity and debt, sensitivity of cash flow to investment, and policies on dividend.

Capital efficient allocation, liquidity effective management of companies, selection of borrowing method or liquidity capital, and design and programming in the ground of policies on dividend are among important financial decisions that accounting information plays a significant role in most of them. Given the subjects mentioned in the research, it is examined that "Is there any relationship between conservatism in reporting and financial flexibility of companies and their financial decisions-making or not?

Theoretical Foundations

In the literature of previous studies, conservatism in accounting has been defined under title of "variability in a different method which is required in order to recognize profit against losses" (Watts, 2008). Consequence of conservatism in reporting is, accelerating recognition of loss against profit as well as recognition o costs and expenses before income with them, both of which lead to a systematic underestimation in net asset values.

In the previous studies conducted it has been argued that in reporting entities and organizations in line with responding to and meeting economical demand for timely information and having validity and reliability by which problems of brokerage in a contract can be reduced and also, in line with responding to changes and transformations applied in legal environments and clearance, accounting conservatism has been used (Holthausen *et al.*, 2001; Watts, 2003).

In most studies conducted in the field of accounting, the role of conservatism in effective debt contract. In 2005, Bull *et al.*, defined and explained two distinctive concepts of conservatism by which conflicts and contradictions of debt holders brokerage and managers can be reduced:

A) Exerting a downward slope in net value reported in order to reduce managers' tendency towards increasing the net value.

B) Committing managers to pay attention to bad news on a timely basis.

These two dimensions of conservatism restrict managers' motives in transferring wealth and capital towards shareholders and timely information is given to debt owners so that, transfer and assignment of control rights to them during disorganization of financial situation of companies are possible.

Two key assumptions form basis for prioritizing conservatism in reporting to debt owners:

A) The debt owners do clearance asymmetrically in relation to gross assets of companies and as a result, have more concerns on information about revenues and gross assets distribution.

B) debt contracts and agreements and conventions with them are written with accounting figures and writing contracts in which these figures have been adjusted will be costly (Guay *et al.*, 2006; Watts, 2003).

Models of the Research

A Criterion to Measure Conservatism in Accounting

In order to measure conservatism in reporting, a criterion has been used that Dichef *et al.*, (2008) provided. They suggested the criterion to measure conservatism in reporting on the basis of matching revenues with past, present and future expenses and costs.

$$REVENUEt = \alpha0 + \alpha1*EXPt-1 + \alpha2*EXPt + \alpha3*EXPt+1 + \varepsilon t$$

In which EXP is expenses and has been defined under title of earning minus revenue before unexpected items, and all variables are measured with average total assets. In this model, full modification and match of revenue with simultaneous expenses and costs for every profitable identity imply that:

are 0 α_2>1a nd and α_1 α_3

To test the first hypothesis, the following model is used:

$$CASHt = \alpha + \beta CONSVt-1 + \Sigma\gamma CONTROLSt + \varepsilon t$$

In which:

Cash (total liquidity and liquidity equivalents at the end of fiscal year) is dependent variables.

CONSV is an independent variable which has been considered as conservatism.

BM (Book Market value) - R&D (Research & Development), SIZE (logarithm of the market value of assets, DIVD (company paying Dividends), LEVERAGE (total long-term debt and debt in current liabilities at the end of fiscal year), CAPEX (Capital Expenses), CF (Cash Flow for the fiscal year), RET (value weighted 12-month market adjusted Returns in the fiscal year), NWC (Net Working Capital in the fiscal year) have been considered as control variables.

If accounting conservatism increases financial flexibility and leads to a better access to capital, it is predicted that the companies with more conservatism in reporting maintain less liquidity and as a result, in the above equation, it is predicted that ß<0 and vice versa.

To test the second hypothesis, the following model is used:

$$\Delta CASH_t=\alpha+\psi FCF_t+\zeta CONSV_{t-1}+\beta FCF_t*CONSV_{t-1}+\Sigma\gamma CONTROLS_t+\varepsilon_t$$

In which:

ΔCASHt (changes of total liquidity and liquidity equivalents at the end of fiscal year) is a dependent variable.

FCF (Free Cash Flow in fiscal year) and CONSV (Conservatism) are as independent variables.

BM and SIZE are also as control variables in the above model.

To test the third hypothesis, the following model is used:

$$CFSI_t = \alpha + \beta CONSV_{t-1} + \Sigma\gamma CONTROLS_t + \varepsilon_t$$

In which:

CFSI (earnings before surplus items and depreciation and capital expenditures) is as a dependent variable.

CONSV (Conservatism) is as an independent variable.

BM (Book Market value), SIZE (logarithm of assets value), DIVD (paying Dividends in fiscal year), LEVDEV (Deviation of target financial Leverage), PPE (gross asset), OI (Operating Income before depreciation).

Method of the Research

This study is an applied research in the view of aim and it is a correlation one in the view of method and since, it examines cause and effect relationships between the variables is causal after occurring. Statistical universe of the research has included companies listed in Tehran Stock Exchange.

To sample, Judgment Sampling Method (Systematic Elimination) has been used by observing the following conditions:

- Fiscal year of companies in the sample is ended to March, 20.
- Company's shares are transacted at least for one time in three months ended to March, 20.
- They are not among financial intermediation and investment companies, monetary and banking institutions, and holding companies.
- Their information is available.
- They have no change in fiscal period during the research period.
- They are not among losing companies.

Finally after observing the above conditions and applying sampling of 490 companies listed in the Stock Exchange up to the end of March 20, 2014, 98 subjects were selected.

Gathering information has been done by two library and field methods whose first section includes literature and definition and identification of the concepts of independent and dependent variables and discussion and investigation of the effect between them by using financial accounting scientists' theories and the second one is field that the required information was obtained through gathering the data of the companies from their financial statements and Rahavard Novin software. Also to analyze the data, Eviews software has been used.

RESULTS AND DISCUSSION

Findings of the Research

Testing Normal Distribution of Dependent Variable of the Research

In the study, this has been examined through Kolmogorov - Smirnov statistic (K-S). Null hypothesis and the opposite hypothesis in the test are as follows:

$$\begin{cases} H_0 : Normal\ Distrbuton \\ H_1 : Not\ Normal\ Distribution \end{cases}$$

If the level of significance of the statistic for this test is greater than 0.05 (Prop>0.05), the null hypothesis based on normal distribution of variable will be accepted.

Table 5-1: Results of testing normal distribution of independent variable of the research

Variable	Number (N)	Significance (Sig.)
Liquidity	**588**	**0.214**
Liquidity Changes	**588**	**0.122**
Sensitivity of Cash Flow to Investment	**570**	**0.08**

According to the data, the level of significance (Sig.) of Kolmogorov - Smirnov statistic is greater than 0.05 for the dependent variables, therefore, the hypothesis H0 at the level of 95% is verified and indicates that all liquidity, liquidity changes, and sensitivity of cash flow to investment variables have a normal distribution after normalizing process.

Co-Linearity Test

In the research, for co-linearity test, Pierson Correlation Coefficient was used.

Table 5-2: Table of Co-linearity Test

	PAYOUT	CFSI	CONSV	FCF	CASH	CASHB	CAPEX	CF	RET	NWC	BM	SIZE	LEVERAGET	LEDEV	PPE	OI
PAYOUT	1															
CFSI	0296.0-	1														
CONSV	0128.0-	0122.0-	1													
FCF	0256.0	0519.0	0865.0-	1												
CASH	0430.0-	0070.0	0028.0	0412.0	1											
CASHB	0258.0-	0601.0-	0038.0	0134.0-	5236.0	1										
CAPEX	0516.0	1819.0	0875.0	0580.0-	0036.0	0147.0	1									
CF	0265.0	0559.0	0159.0	1896.0	0820.0	0580.0-	2059.0	1								
RET	0240.0-	0272.0-	0194.0	0110.0	0449.0	0320.0-	0540.0-	0469.0	1							
NWC	0618.0-	0080.0-	0880.0-	1840.0	0430.0-	0557.0	6168.0-	0991.0	0601.0	1						
BM	0200.0-	0558.0-	0466.0-	0068.0	0401.0-	0094.0	0629.0	0.1235-	0430.0-	0190.0	1					
SIZE	1464.0	0112.0	0023.0-	0515.0-	0814.0-	0314.0-	0077.0-	04173.0	0118.0	0134.0	1048.0	1				
LEVERAGET	0236.0	0518.0-	0299.0	0524.0-	0391.0	0299.0	0139.0-	0608.0-	0506.0	0790.0-	2256.0-	1087.0	1			
LEDEV	0152.0-	0688.0-	0650.0-	0809.0	0880.0-	1293.0-	0334.0-	0299.0	0651.0-	1390.0	0744.0	0380.0	0337.0	1		
PPE	0514.0	1411.0-	0810.0-	59808.0	0961.0	0490.0	12677.0	0686.0	0386.0	0764.0-	0347.0	0070.0-	0262.0-	0169.0-	1	
OI	0031.0	0172.0	0216.0	16061.0	0429.0	0075.0	0013.0	0804.0	0032.0-	0541.0	0128.0-	0236.0-	0330.0	0201.0-	.0576	1

According to the results, it is considered that the correlation coefficients between all variables are weak and thus, co-linearity problem between the independent variables will be avoided (Khaki, 1992-1993).

Homogeneity of Variances

Arch test, White test, Gajelser test, and Brash Pagan test have been separately tested to examine existence or non existence of the problem of variance heterogeneity in each of the models of the research that results have showed existence of variance homogeneity. Here an appropriate solution is, using Generalized Least Squares Test.

Independence of Observations

In this research, to examine the independence of observations and absence of autocorrelation between explanatory variables, Durbin Watson statistic has been used.

If the statistic is placed between 1.5 to 2.5, lack of correlation between errors will be accepted. Durbin Watson statistic has been calculated for all regression models which show this figure is placed between (1.5 to 2.5). Lack of correlation in components of the regression model proves the models.

Table 5-3: Unit Root Test (Shane & brothers) to recognize the stationary or being static of combinatory data

Operating profit	Properties, machineries and equipment	Deviation of financial leverage	Financial leverage	Company size	Book market value	Net working capital	Market return	Net operating cash inflows or outflows at the end of fiscal year	Capital Expenses and costs	Liquidity changes	Liquidity	Free cash flow	Conservatism	Sensitivity of cash flow to investment	changes in paying dividends	Variables
0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	0000.0	.0 0000	.0 0000	0000.0	Level of significance

Table 5-4: Results of Limer test to select pooling or panel combinatory method

Model	Null Hypothesis (H0)	P-Value	Result of Test
Model 1	Special effects of company are not significant (pooling method is appropriate).	0.0000	H1 is verified. Combinatory method or panel is selected.
Model 2	Special effects of company are not significant (pooling method is appropriate).	0.0603	H0 is verified. Combinatory method or pool is selected.
Model 3	Special effects of company are not significant (pooling method is appropriate).	0.0000	H1 is verified. Combinatory method or panel is selected.

Table 5-5: Least squares regression using fixed effects of combinatory data method for dependent variable towards sum of liquidity and liquidity equivalents

Significance Level (Sig.)	Statistic t	Standard Error (Std Error)	(β)Coefficients	Components of the model
0000.0	549953.6	006972.0	045665.0	Width from origin
0000.0	226711.7	000168.0	001216.0	Conservatism
0637.0	858461.1-	000681.0	001266.0-	Book market value
0310.0	163323.2-	000355.0	000768.0-	Company size
0590.0	893022.1	002166.0	004100.0	Financial Leverage
1810.0	339755.1	005845.0	007831.0	Capital expenses and costs
0177.0	379523.2-	004355.0	010363.0-	Net operating cash inflows or outflows at the end of fiscal year
6829.0	408752.0	05E-04.1	06E-24.4	Market return
3285.0	978169.0	006157.0	006022.0	Net working capital

Stationary (Static) Test for the Variables of the Research

There are different tests such as Dicky Fuller test, Fillips, Proon, Hardy, Augmented Dicky Fuller, and Correlogram method to identify stationary of the variables examined that in the research, Shane & brothers method will be used. To avoid a false result, at first, the stationary (being static) of the model's variables was tested using Shane & brothers test and it is found that all variables of the research are static at an acceptable level.

Determining a Method to Apply the Combinatory Data

Before estimating the model by using the combinatory data, it should be taken decision about an appropriate method for applying these kinds of data in estimation. First, it should be specified that it principally needs to take into account data panel structure (special differences or effects of a company) or that the data related to different companies should be pooled and applied in estimation of the model. Therefore, to estimate the appropriate model, Limer test is used in order to make decision about rejection and acceptance of equality of special fixed effects of companies and finally about selection of a classic method or panel data method.

Since, the value of statistic at the significance level calculated in the model 2 by using Limer test is greater than 5%, Hypothesis H0 is not rejected and being not rejected the hypothesis H0 means that width from origins for sections (companies) are different and therefore, using the pooling method is compatible and will have efficiency too and thus, it should be paid attention to the results of the pool model.

But in models 1 and 3, the value of statistic at the significance level calculated by using Limer test is less than 5%, therefore, the hypothesis H0 is not rejected and being not rejected the null hypothesis means that the width from origins or the sections (companies) are not different and therefore, using the panel method is compatible and will have efficiency too and thus, it should be paid attention to the results of the panel model. In the second stage, to specify that whether the fixed effects method or random effects method are used in order to estimate the model in the models 1 and 3, Husman test is used.

The significance level calculated in this test is less than 5%. Therefore, the hypothesis H0 is rejected and a result is that the best kind of estimation is the fixed effects method.

Testing Hypotheses

1- There is a relationship between conservatism in financial reporting with maintenance of cash flows.

To test the first hypothesis, the following model is used:

$CASHt = \alpha + \beta CONSVt\text{-}1 + \Sigma\gamma CONTROLSt + \varepsilon t$

Table 5-6: Significance test for whole model

Durbin Watson Statistic	Husman Test	Brash Pagan Test	Jarque-Bra Test	Significance Level (Sig.)	F Statistic	Adjusted Coefficient	Coefficient of Determination
004588.2	0.00000	8466.0	0.1234	000000.0	29009.10	626907.0	694388.0

To measure validity of the model and examine the assumptions of the classic regression, in addition to examine lack of co-linearity between independent variables entered the model, it is also necessary to do tests in relationship with normality of residuals, homogeneity of variances, independence of the residuals, and the absence of clear error of the model (linearity of the model).

A) First, F test is used in order to examine the significance of the whole model. Statistical hypotheses for the test are as follows:

H0: All coefficients are zero

H1: At least one of the coefficients is non-zero

Also, F statistic given that its probability is (0.000) shows that the aforementioned regression model with a confidence of 99% is true and the whole regression is significant.

B) After making sure of the significance of the estimated model, F statistic is used in order to examine this relationship at the error level of a=0.05. As it is observed in the table (5-6), the values of probability

calculated for conservatism, net operating cash inflow or out flow at the end of fiscal year, and company size are significant at the confidence level of 95% and the error level of 5% (significance level less than 5% and magnitude of t greater than 2). Coefficient β indicates a positive and direct effect between conservatism and net operating cash inflow or outflow at the end of fiscal year with cash flows maintenance of the companies.

Also, company size variable has a negative and reverse effect with the cash flows maintenance of the companies.

C) Coefficient of Determination (R) is a criterion which explains the strength of relationship between independence variables and dependent variable. In fact, the value of this coefficient specifies that how percent of dependent variable changes are explained by the independent variable. In this model, adjusted coefficient of determination is about 69%, that is, 69% of the dependent variable changes are explainable by significant independent variables.

D) The value related to Durbin Watson statistic (DW) confirms the lack of successive autocorrelation problem. In better words, Durbin Watson statistic has been calculated for the regression model which shows this figure is placed between (1.5 and 2.5). Absence of correlation in the components of the regression model proves the above model.

According to the aforementioned results on the significance levels of t statistic and F statistic, given that the probability of F statistic is (0.000), it shows that the aforementioned regression model is true with a confidence of 99%. Since, there is a significant relationship between conservatism ratio with cash flows maintenance of the company, therefore, it can come to this conclusion that the first hypothesis is verified.

Second hypothesis: There is a relationship between accounting conservatism and tendency of the companies to deposit.

To test the second hypothesis, the following model is used:

$$\Delta CASH_t = \alpha + \psi FCF_t + \zeta CONSV_{t-1} + \beta FCF_t * CONSV_{t-1} \Sigma\gamma CONTROLS_t + \varepsilon_t$$

Table 5-7: Generalized Least Squares regression of combinatory data for dependent variable towards sum of liquidity and liquidity equivalents changes

Significance Level (Sig.)	t Statistic	Standard Error (Std, Error)	(β) Coefficients	Components of the model
0000.0	771448.7	001604.0	012468.0	**Width from origin**
0000.0	40488.13-	001467.0	019671.0-	**Free cash flows**
0245.0	249415.2-	05E-77.9	000220.0-	**Conservatism**
0000.0	24672.17	000451.0	007781.0	**FCF*CONSV**
0281.0	196263.2-	000283.0	000623.0-	**Book market value**
0000.0	532580.5-	000119.0	000658.0-	**Company size**
0000.0	68786.77-	004465.0	346845.0-	**)1AR(**

Table 6-5: Significance test for the whole model

Durbin Watson Statistic	Brash Pagan Test	Jarque Bra Test	Significance Level (Sig.)	F Statistic	Adjusted Coefficient	Coefficient of Determination
162676.2	9515.0	0.1145	000000.0	209.1140	126186.0	126296.0

Statistical hypotheses for the test are as follows:

H0: All coefficients are zero

H1: At least one the coefficients is non-zero

Also, F statistic given that its probability is (0.000) shows that the aforementioned regression model with a confidence of 99% is true and the whole regression is significant.

The values of probability calculated for conservatism and all control variables are significant at the confidence level of 95% and the error level of 5% (significance level less than 5% and magnitude of t greater than 2).
Coefficient β indicates that there is a negative and reverse effect between book market value ratio, free cash flows, conservatism, and company size with the tendency of the companies to deposit.
In this model, adjusted coefficient of determination is about 12%, that is, 12% of the dependent variable changes are explainable by significant independent variables.
E) The value related to Durbin Watson statistic (DW) confirms the lack of successive autocorrelation problem. In better words, Durbin Watson statistic has been calculated for the regression model which shows this figure is placed between (1.5 and 2.5). Absence of correlation in the components of the regression model proves the above model.
According to the aforementioned results on the significance levels of t statistic and F statistic, given that the probability of F statistic is (0.000), it shows that the aforementioned regression model is true with a confidence of 99%. Since, there is a significant relationship between conservatism ratio and CFC*CONSV with the tendency of the companies to deposit, therefore, it can come to this conclusion that the second hypothesis is verified.
Third hypothesis: There is a relationship between conservatism in accounting with sensitivity of cash flow to investment in companies.
To test the third hypothesis, the following model is used:
$CFSIt = \alpha + \beta CONSVt\text{-}1 + \Sigma\gamma CONTROLSt + \varepsilon t$

Table 7-5: Generalized Least Squares regression of combinatory data for dependent variable of published liquidity

Components of the model	CFSI		CAPEX		CFSIDUM	
	Coefficients β	Significance Level	Coefficients β	Significance Level	Coefficients β	Significance Level
C	195187.0	0000.0	278342.0	0000.0	283946.0	6068.0
Conservatism	001660.0-	0443.0	05E-37.1-	9768.0	010955.0	0093.0
Book/Market Value	000136.0-	9496.0	004908.0	0046.0	192367.0	0308.0
Company Size	001741.0	1701.0	002429.0-	0062.0	019959.0-	6210.0
Deviation of Financial Leverage	100948.0-	0000.0	005860.0-	5857.0	792007.0	0000.0
Properties, Machineries, and Equipment	053056.0-	0046.0	019471.0	0007.0	011914.0	8876.0
Operating Profit	005806.0	0002.0	003406.0-	0189.0	138836.0	3574.0
Market Return	05E-74.2-	0733.0	05E-31.2-	0901.0	001729.0-	0417.0
Financial Leverage	009445.0-	0792.0	001648.0-	7528.0	079738.0	8085.0
R-squared	860701.0		966564.0			
Adjusted R-squared	829943.0	S.D. dependent var	959181.0			
McFadden R-squared					052880.0	
LR statistic					09715.10	
F-statistic	98287.27		9179.130			
Prob(F-statistic)	0.0000		0.0000		0.000	
Durbin-Watson stat	884645.1		939755.1			
Husman Test	0.0000		0.0000			
Jarque-bra Test	0.2578		0.2356			
Brash Pagan Test	8733.0		9733.0			

Statistical hypotheses for F test are as follows:
H0: All coefficients are zero
H1: At least one of the coefficients is non-zero

Also, F statistic given that its probability is (0.000) shows that the aforementioned regression model with a confidence of 99% is true and the whole regression is significant.

The values of probability calculated for conservatism and variables of deviation of financial leverage, properties, machineries, and equipment, and operating profit are significant at the confidence level of 95% and the error level of 5% (significance level less than 5% and magnitude of t greater than 2). Coefficient β indicates that there is a positive and direct effect between operating profit and sensitivity of cash flow to investment of the companies.

Also, the variables of conservatism, book market value, deviation of financial leverage, and properties, machineries, and equipment have a negative and reverse effect on sensitivity of cash flow to investment of the companies.

In this model, adjusted coefficient of determination is about 95%, that is, 95% of the dependent variable changes are explainable by significant independent variables.

The value related to Durbin Watson statistic (DW) confirms the lack of successive autocorrelation problem. In better words, Durbin Watson statistic has been calculated for the regression model which shows this figure is placed between (1.5 and 2.5). Absence of correlation in the components of the regression model proves the above model.

According to the aforementioned results on the significance levels of t statistic and F statistic, given that the probability of F statistic is (0.000), it shows that the aforementioned regression model is true with a confidence of 99%. Since, there is a significant relationship between conservatism ratio and sensitivity of cash flow to investment of the companies; therefore, it can come to this conclusion that the third hypothesis is verified.

Conclusion

According to the findings of the research, it can be said, the results of the research are consistent and congruent with previous studies results indicating that the companies with more conservatism in reporting have less flexibility in their financial decisions that it is in line with Disorder in Information point of view.

In examining the first hypothesis, the result of the research shows that there is a relationship between conservatism in financial reporting and cash flow maintenance. Therefore, it can be said that the companies with more conservatism in reporting maintain more liquidity. Also, the control variables have a noticeable consistent and congruent with the findings obtained from previous studies indicating that the companies enjoying of more valuable investment opportunities (more research & development) and higher risks, and more cash flow (more CFVOL) maintain more liquidity and the companies having more cash outflow (more LEVERAGE, CAPEX, and NWC) and those who have more durability and stability (larger SIZE and companies paying the dividends) maintain less liquidity. These findings are in accordance with the results of the studies conducted by Jimmy *et al.,* (2009). In examining the second hypothesis, the result of the research shows that there is a relationship between accounting conservatism and the tendency of the companies to deposit. The companies having high conservatism in reporting deposit more liquidity from cash outflows. Altogether, the results of the first and second hypotheses show that the companies having more conservatism in reporting show less flexibility and as a result, maintain more liquidity and accumulate more liquidity through cash inflows which will be useful in anticipating future difficulties and problems and in the company's ability to access to capital. This finding is in accordance with the results of the studies conducted by Jimmy *et al.,* (2009), Guay *et al.,* (2010), Piterson *et al.,* (2010). The results of the third hypothesis show that there is a relationship between conservatism in accounting and sensitivity of cash flow to investment in the companies, so the companies having more conservatism in reporting show more sensitivity of cash flow to investments. This finding is in accordance with the results of the studies conducted by Jimmy *et al.,* (2009).

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