Original Article

Investigating the Effect of Firm Characteristics on Accounting Conservatism and the Effect of Accounting Conservatism on Financial Governance

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Abstract

In today's competitive business world, many companies face the risk of financial distress and bankruptcy. One of the causes of financial distress can be intra-organizational factors such as company characteristics and inadequate level of accounting conservatism. Accordingly, the purpose of this study was to investigate the effect of firm characteristics on accounting conservatism and the effect of accounting conservatism on financial distress in the Tehran Stock Exchange. The statistical population of this study included 137 companies listed in Tehran Stock Exchange during the period of 2011 to 2016 and their data were extracted from Rahavard Novin software. The C-score Index was used to measure accounting conservatism and the Altman adjusted model (localized) was used to measure financial distress. The hypotheses were tested using a multivariate regression method with panel data and fixed effects. The research results showed that in Tehran Stock Exchange, firm characteristics such as company growth and profitability ratio had no negative effects on accounting conservatism. In addition, company life, board composition, and ownership composition had no positive effects on accounting conservatism, and financial leverage had a positive effect on accounting conservatism. Moreover, accounting conservatism had no significant negative effects on financial distress.

Keywords: Firm characteristics, Accounting conservatism, Financial distress, Bankruptcy

Introduction

The rapid advancement of technology and rapid environmental changes have given the economy an accelerating pace. The increasing competition of businesses has limited profitability and increased the likelihood of bankruptcy, thus making financial decision-making more strategic than ever. Financial decision-making has always been accompanied by risk and uncertainty. One way to help investors is to provide forecasting patterns about the company's overall outlook. The closer the predictions are to the reality, the better the basis of decisions. Beaver believed that "forecasting is possible without making decisions, but even the smallest decisions cannot be made without forecasting" [1]. The capital market, along with the money and debt markets, is one of the most important sources of financing for companies operating in it. The boom in the capital market attracts capital, and its recession causes capital to escape. Economic conditions as an external factor can have different impacts on companies and affect accounting data behavior and corporate performance.

Statement of the Problem

Concerning about financial distress is a sensitive issue not only in the academic literature but also at the executive level. The causes of corporate financial distress are complex and widespread. High debt ratios, inadequate operating cash flows, and reduced shareholder transactions, as well as financial signals along with other factors such as the external environment, poor management, and inappropriate management strategies, can cause the firm experience financial distress and bankruptcy [2]. One of the main causes of financial distress and, consequently, bankruptcy is the failure to exercise control by various beneficiaries, including shareholders, creditors, managers, workers, and suppliers.

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Financial distress and ultimately bankruptcy can cause huge losses for shareholders, investors, creditors, managers, employees, suppliers of raw materials, and customers. The tendency toward corporate-specific financial and accounting planning can be indicative of the radical or conservative nature of the company. As such, the likelihood of financial distress can be indirectly derived from these tendencies [2]. Watts and Zou (2013) in their study examined the effects of accounting conservatism on corporate value during periods of financial distress [3]. Their research showed that companies that followed conservative policies before the crisis period had more access to the borrowed resources in times of crisis and also saw a lower reduction in stock returns. Accounting conservatism is one of the qualitative characteristics associated with the content of financial information. Conservatism reduces the likelihood of profits being overstatement and dividend payouts of settlement. Conservatism provides timely indications to check for projects with a negative net present value (if any) and to take appropriate action. It also reduces the costs of litigation resulting from an overstatement of profits and net assets. In addition, conservatism with a net understatement of assets and profits reduces the payable tax. All of the above will indirectly prevent financial distress and bankruptcy.

Theoretical foundations

Conservatism

Scholars have already provided various definitions of accounting conservatism. Some, like Basu, described accounting conservatism as "the way in which, in response to bad news, the recognition of earnings and net assets reduce, while in response to good news, the recognition of earnings and net assets does not increase". However, most scholars in the discussions of asset valuation, according to accounting principles, mostly refer to Felsham and Olson's definitions of conservatism. They define accounting conservatism as "the expectation that the net worth of an entity's reported assets will be less than its market value in the long run". In other words, it is assumed that by applying accounting conservatism, the market value of the reported assets will be greater than their book value.

The Role of Conservatism in Financially Distressed Firms

Managers are able to hide bad news about the company and it seems negative information will be stored within a company. However, there is a limit for managers in terms of the amount of bad news they can absorb and successfully hide. This limitation is because if, at a certain time, the amount of collected bad news reaches a certain threshold or limit, then continuing to hide them is either very costly or in general impossible. When the collected bad news reaches its final point (declivity), all of it is suddenly published and results in a one-time bankruptcy [4]. In this regard, it seems that conservative practices in the financial reporting of insolvent companies are more important. Also, conservatism reduces cash outflows by avoiding unnecessary cash costs, delaying payment of actual expenses, and reducing agency maintenance costs. In this respect, conservatism reduces cash outflows in the form of bonuses, taxes or dividends through late recognition of profits and increasing assets [5].

Firm characteristics

In this study, the characteristics of the company are relationships between profitability, financial leverage, company life, board composition, and ownership composition. These internal and other external features, including the state of the national economy, prosperity, and national laws and regulations, can play an obvious and influential role in the acceptable level of accounting conservatism and ultimately financial distress.

Corporate growth and profitability ratio: The relationship between corporate growth and profitability has always been addressed by business executives and owners, and proper growth management in a way that does not lead to financial distress and not disrupt future profitability is one of the key concerns in this area. In the meantime, the impact of different stages of a company's life cycle on the relationship of growth and profitability can also influence growth and investment decisions in the company, and various researchers have always tried different rules and methods in this regard. Profitability is one of the most important indicators of measuring the performance of economic units that indicate the ability of the company to gain benefits for the owners. On the other hand, the growth that comes from seeking opportunities is one of the indicators of evaluating a company's performance and its continuity leads to less market risk for the company.

Financial leverage: A company that has a large debt-to-equity ratio may retain a higher percentage of profit in the company in order to provide the funds it needs to pay off debt or be required to distribute a percentage of the profit based on debt contracts providing the funds needed to pay off the debt. On the other hand, with increasing leverage (debt-to-equity ratio), the corporate financial risk increases the risk of financial distress.

Corporate life cycle: All living things, including plants, animals, and humans, all follow the life-curve or life-cycle. Such creatures are born, grow, mature, and eventually die. The life-cycle theory assumes that companies and enterprises, like all living things that are born, grow and die, have a life-cycle or life-curve.

Corporate strategic characteristics: The board composition is viewed as the ratio of non-executive members to the total number of board members. The more independent the composition of the board of directors, the less the problems of representation. Unlike executive managers, non-executive managers are independent of company management and therefore more effective in their supervisory role. Thus, from a theoretical perspective, when the board of directors is independent and of a high proportion of non-executive

members, the firm's performance improves. Also, more independent directors are in a better position to move resources towards tax management because they have a broader vision of the company and its overall performance due to their independence.

The duality of CEO responsibility occurs when the CEO is elected as the Chairman of the Board of Directors. This may lead to a conflict of interest and loss of independence. When the CEO is also on the board (duality of CEO duties), there is less threat of losing his job and this duality of duties makes the manager less motivated to improve performance and negatively impacts firm performance. Therefore, there is no action taken by the CEO to increase taxes and performance.

Corporate governance involves processes for guiding corporate efforts to create value for shareholders and is considered as a philosophy and mechanism for protecting the group and individual interests of all corporate stakeholders. Demand for corporate governance mechanisms is believed to increase with increasing agency conflicts. In other words, agency conflicts and corporate governance mechanisms are complementary to one another [6].

In this study, the independent variable of institutional ownership was evaluated, which is equal to the percentage of shares held by state-owned and public corporations of total capital stock. These corporations include insurance companies, financial institutions, banks, government companies, and other government components. This variable has been used in previous research with the same definition.

Research Background

Zhang et al. (2015) carried out a study entitled “Determinants of the Financial Distress of Large Financial Institutions: Evidence from US Banks”, over the period 2007–2009 [7]. The results of their research indicated the importance of non-financial measures as well as the capital adequacy ratio to predict financial distress.

Vienna (2015), in a study titled “Using Accounting Ratios to Predict Financial Distress: An Experimental Study of Vietnam Stock Market”, over the period 2007–2012, used logistic regression after dividing firms into healthy firms and turbulent firms [8]. The results showed that financial ratios can be used as early signs of corporate financial distress.

In a study, Gang et al. (2015) attempted to predict the financial distress of 107 Chinese stock companies listed between 2001 and 2008 using data mining techniques [9]. The results showed more than ten financial indicators with the highest predictive ability. Return on assets, net profit on total assets, earnings per share, and cash flow per share were among the financial indicators that had the same predictive ability as the selected 31 financial indicators.

Mohammad Sifa et al. (2017) conducted a study titled “Financial Distress, Institutional Ownership, Profitability, and Accounting Conservatism” in order to examine the relationship between them in the Indonesian Stock Exchange from 2011 to 2015 [10]. The results showed that financial distress and profitability were significantly affected by conservatism. In addition, financial distress and profitability had a positive correlation with accounting conservatism.

Eslami Bidgoli et al. (2011) studied 105 companies from 2001 to 2007 in a study titled "Accounting Conservatism and Financial Crisis of Listed Companies in Tehran Stock Exchange by Logistic Regression Test" [11]. 48 companies were in financial crisis and 57 were profitable. The results of the study emphasized the inverse relationship between the firm size of profitability index and direct relationship with a leverage ratio as well as the lack of impact of sales` growth on the corporate financial crisis.

Jabbarzadeh Kangarlooi et al. (2012) conducted a study titled "The Impact of Debt Structure on Contingent Conservatism in Companies Listed in Tehran Stock Exchange" during the years 2002-2008 [12]. The research findings showed that firstly the ratio of total debt to total assets had a positive effect on conditional conservatism in the profit-and-return model, which was ineffective in a profit-based model, and had a negative effect on the model based on the relationship between accruals and operating cash flow.

Setayesh and Karimipour (2013) conducted a study examining the impact of conditional and unconditional accounting conservatism on the financial distress risk of listed companies in Tehran Stock Exchange [13]. The results of the analysis of the research hypotheses showed that conditional and unconditional accounting conservatism could reduce the risk of financial distress of Iranian companies but this relation was not statistically significant.

Setayesh and Karimipour (2013) conducted a study titled "Investigating the Impact of Contingent and Contingent Accounting Conservatism on the Financial Distress Risk of Companies Listed in Tehran Stock Exchange". The results of the analysis of the research hypotheses showed that conditional and unconditional accounting conservatism could reduce the risk of financial distress of Iranian companies but this relationship was not statistically significant.

Abdi (2013) conducted a study titled "Comparison of Conservatism and Profit Smoothing in Bankruptcies and Bankruptcies" [14]. The results showed that conservative bankrupt companies were less conditional than healthy (non-distressed) companies, which was a consequence of the manipulation of accounting figures and actual activities by managers.

Nabizadeh Moshizi and Moghadam (2017) undertook a study titled “The Relationship between Contingent Conservatism and Bankruptcy Risk in Listed Companies of Tehran Stock Exchange” during 2004-2013 with 152 companies [15]. Findings showed that there was a positive and significant

relationship between conditional conservatism and bankruptcy risk. Among the control variables, there was a significant positive and negative relationship between financial leverage and firm size with bankruptcy risk, respectively.

Research Methodology

In terms of purpose, this study was a fundamental empirical study. The method of data collection was descriptive-correlational. This research was conducted in the context of deductive-inductive reasoning. Due to the lack of sufficient information about all the companies operating in the country, the statistical population of this study included the companies listed in Tehran Stock Exchange during the years 2011 to 2016 that had sufficient information to calculate the financial ratios used in the research. The used sample was also selected through systematic removal from the statistical population; a library method was used to collect the data of this research. In this way, the theoretical foundations and the research background was obtained by referring to existing books, articles, and other sources. The needed data to test the research hypotheses were also obtained from the annual financial statements of companies, the report of the Board of Directors to the General Meeting of Shareholders and the website of the Stock Exchange. The data and information of this research were obtained from the financial statements of companies, books, thesis, and library of Stock Exchange, Novin Rahavard software and also through the official website of the Tehran Stock Exchange. In this study, descriptive and inferential statistics were used for data analysis, graphs and tables were used for descriptive statistics, and test and regression were used for inferential statistics.

Research Hypotheses:

Hypothesis 1: Company characteristics have a significant effect on accounting conservatism.

Sub-hypothesis 1: Company growth has a negative effect on accounting conservatism.

Sub-hypothesis 2: The profitability ratio has a negative effect on accounting conservatism.

Sub-hypothesis 3: Financial leverage has a positive effect on accounting conservatism.

Sub-hypothesis 4: Company life has a positive effect on accounting conservatism.

Sub-hypothesis 5: The board composition has a positive effect on accounting conservatism.

Sub-hypothesis 6: The combination of ownership has a positive effect on accounting conservatism.

Hypothesis 2: Accounting conservatism has a negative and significant effect on the probability of financial distress.

Findings

Analysis of the Conservative Variable

In the first step, accounting conservatism was investigated after data collection. The results of the regression and coefficients of λ are shown in Tables 1 and 2, respectively.

Table 1: Regression Calculation of Conservative Variable Using the Khan and Watts Method

Variable	Coefficient	Standard deviation	T statistics	Significance
Constant coefficient C	0.717	0.056	12.785	0.000
Virtual variable D	0.096	0.054	1.772	0.076
R stock returns	0.172	0.026	6.620	0.000
Stock Returns*Size of Company, R*SIZE	-0.009	0.001	-6.107	0.000
Stock Returns*Company Value Ratio, R*MTB	6.130	0.000	0.469	0.639
Stock Returns*Debt Ratio, R*LEV	-0.020	0.008	-2.274	0.023
Virtual variable*Stock returns, D*R	-0.012	0.112	-0.110	0.912
Virtual Variable*Stock Returns*Company Size, D*R*SIZE	-0.001	0.008	-0.133	0.893
Virtual Variable*Stock Returns*Market Value Ratio, D*R*MTB	-0.002	0.000	-2.192	0.003
Virtual Variable*Stock Returns*Debt Ratio, D*R*LEV	0.047	0.060	0.787	0.431
Company size, Size	-0.030	-0.003	-7.887	0.000
Market Value Ratio, MTB	-6.720	0.000	-0.391	0.695
Debt Ratio, LEV	-0.254	0.015	-16.795	0.000
Virtual variable*Company size, D*SIZE	-0.007	0.003	-1.883	0.059
Virtual variable*Ratio of company market value, D*MTB	-0.000	0.000	-1.170	0.242
Virtual Variable*Debt Ratio, D*LEV	-0.011	0.025	-0.478	0.632

Table 2: The Results of Mathematical Coefficients of λ for each year

Year/variable	DI*R	DI*R*SIZE	DI*R*MTB	DI*R*LEV
2011	0.264	0.011	0.002	0.126
2012	-0.991	0.072	0.119	-0.144
2013	3.121	-0.250	0.114	0.337
2014	-0.058	0.030	0.011	-0.500
2015	0.433	-0.043	0.031	0.192
2016	-0.727	0.045	0.061	-0.010

After calculating the annual coefficients, the mathematical calculations provided the accounting conservatism for each individual company and each year.

Method

The following regression models were used to test the research hypotheses:

$$C\_Score_{it} = \beta_0 + \beta_1 Distress_{it} + \beta_2 Growth_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \beta_5 AGE_{it} + \beta_6 BOARD_{it} + \beta_7 OWNERSIP_{it} + \varepsilon$$

$$Distress_{it} = \beta_0 + \beta_1 C\_Score_{it} + \beta_2 WC_{it} + \beta_3 RE_{it} + \beta_4 EBIT_{it} + \beta_5 MVE_{it} + \beta_6 Sales_{it} + \varepsilon$$

Reliability test of variables (Unit root)

Before testing the hypotheses, a static test was performed for the independent and dependent variables of the study. The results of the static test on the variables are presented in Table (3).

Table 3: The investigation of variables` reliability

Variable	Symbol	Philips Peron test		Result
		Statistics	Meaningful	
Conservatism	C-SCORE2	708.247	0.000	Stable
Financial Distress	DISTRESS2	351.550	0.001	Stable
Company's growth	GROWTH	469.003	0.000	Stable
Profitability	ROA	376.493	0.000	Stable
Debt Ratio	LEV	394.124	0.000	Stable
Company age	AGE2	2523.630	0.000	Stable
Board composition	BOARD	248.493	0.008	Stable
Ownership composition	OWNERSHIP	207.167	0.000	Stable
Working capital ratio	WC	371.503	0.000	Stable
Accumulated profit ratio	RE	334.993	0.007	Stable
Earnings before interest and taxes	EBIT	375.648	0.000	Stable
Stock market value	MVE	319.205	0.031	Stable
Sales revenue ratio	SALES	366.672	0.000	Stable

It can be seen that the significance value of all variables was less than 0.05 which indicated that all the research variables were stable.

Collinearity of variables

In this study, the variance inflation factor was used to investigate the collinearity between explanatory variables, the results of which have been presented in Tables 4 and 5.

Table (4): The collinearity of variance inflation factor of explanatory variables in the first model of research

Description		Coefficient	Constant	Central
Explanatory variable	Symbol	Variance	Variance inflation factor value	Variance inflation factor value
Financial Distress	DISTRESS2	0.006	3.360	3.353
Company's growth	GROWTH	6.940	1.075	1.011
Profitability	ROA	0.057	2.856	1.604
Debt Ratio	LEV	0.046	38.240	2.865
Company age	AGE2	0.090	1569.140	1.247
Board composition	BOARD	0.092	77.085	1.029
Ownership composition	OWNERSHIP	3.610	1.907	1.030

Table (5): The collinearity of variance inflation factor of explanatory variables in the second model of research

Description		Coefficient	Constant	Central
Explanatory variable	Symbol	Variance	Variance inflation factor value	Variance inflation factor value
Conservatism	C-SCORE2	6.960	1.072	1.072
Working capital ratio	WC	0.009	4.439	2.042
Accumulated profit ratio	RE	0.013	5.151	2.726
Earnings before interest and taxes	EBIT	0.011	5.642	2.078
Stock market value	MVE	4.390	3.230	1.043
Sales revenue ratio	SALES	0.001	28.657	1.369

As can be seen, none of the values of the variance inflation factor were greater than 5 and were mostly close to one. Therefore, the results showed a lack of collinearity in the explanatory variables.

The investigation of research hypotheses

Model Diagnosis Test

To choose from the pooled and panel models, the following test was used

$$\begin{cases} H_0: \alpha_1 = \alpha_2 = \alpha_3 = \cdots = \alpha_{t-1} & \text{(Pooled model) All intercepts are equal.} \\ H_1: \alpha_i \neq \alpha_j & \text{(Panel model) At least one intercept differs from the rest.} \end{cases}$$

Table 6: The results of F limer test

Model	F. Limer statistics	Degrees of freedom	Meaningful	Result
First model	1.294	(136.540)	0.023	Panel data
Second model	9.972	(136.679)	0.000	Panel data

Model estimation with fixed or random effects

Test this assumption as follows:

$$\begin{cases} H_0 = \text{Random effects model} \\ H_1 = \text{Fixed effects model} \end{cases}$$

Table 7: The results of Hasman test

Model	Hasman statistics	Degrees of freedom	Meaningful	Result
First model	48.533	7	0.000	Fixed effects
Second model	0.000	6	1.000	Fixed effects

Model Estimation

Table 8: Estimation of the first model

Dependent variable = accounting conservatism

$$C\_Score_{it} = \beta_0 + \beta_1 Distress_{it} + \beta_2 Growth_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \beta_5 AGE_{it} + \beta_6 BOARD_{it} + \beta_7 OWNERSIP_{it} + \varepsilon$$

Variable	Symbol	Coefficient	T statistics	Significance
Financial Distress	DISTRESS2	0.763	9.394	0.000
Company's growth	GROWTH	1.121	0.135	0.893
Profitability	ROA	1.113	4.638	0.000
Debt Ratio	LEV	1.101	5.080	0.000
Company age	AGE2	-0.827	-2.754	0.006
Board composition	BOARD	-0.967	-3.184	0.001
Ownership composition	OWNERSHIP	0.004	0.722	0.470
Equation constant	C	2.399	2.478	0.013
Self-correlated model variables	AR(1)	-0.353	-9.458	0.000
The overall fitness of the model		Significance of the whole model		Fischer statistic = 373.2
		Significance probability		Significant = 0/000
		Investigation of model waste independence		Durbin–Watson statistic = 2.43
		The explanatory power of the whole model		Coefficient of determination = 0.378

The results of the regression model estimation are given in Table 8. The significance level less than 0.05 for the F-statistic indicated that the input variables, including control and independent variables, were significant at a 95% confidence level.

Sub-hypothesis 1: Company growth has a negative effect on accounting conservatism.

In the first model, the effect of the independent variable of growth coefficient of the company on the dependent variable of accounting conservatism was calculated as 1.121, because it had no negative relationships and the t-test statistic was 0.135, which was greater than the absolute value of the critical t value at the error level of 5% (1.96), this indicated that this coefficient was not significant and the significant value was calculated to be 0.893 which was greater than the error level of 0.05. Therefore, the above finding was not confirmed; so it can be said that company growth had no negative effect on accounting conservatism and the first sub-hypothesis was rejected.

Sub-hypothesis 2: The profitability ratio has a negative effect on accounting conservatism.

In the first model, the effect of the independent variable coefficient of profitability ratio on the dependent variable of accounting conservatism was calculated as 1.113, and the t-test statistic was 4.638 which was greater than the absolute value of the critical t value at the error level of 5% (1.96). This indicated that this coefficient was significant and the significant value was calculated as 0.000, which was smaller than 0.05 level of error. Since the coefficient was positive, the above finding was not confirmed; so it can be said that profitability ratio had no negative effect on accounting conservatism and the first sub-hypothesis was rejected.

Sub-hypothesis 3: Financial leverage has a positive effect on accounting conservatism.

In the first model, the impact factor of the independent variable of financial leverage on the dependent variable of accounting conservatism was calculated to be 1.101 and the t-test statistic was 5.080 with absolute value less than the critical value of t at 5% error level (1.96), which indicated that this coefficient was significant. The significant value was also calculated as 0.000 which was smaller than the 0.05 level of error. Since the coefficient was positive, the above finding was confirmed, so it can be said that financial leverage had a positive effect on accounting conservatism and the sub-hypothesis 3 was confirmed.

Sub-hypothesis 4: Company life has a positive effect on accounting conservatism.

In the first model, the impact factor of the independent variable of company life on the dependent variable of accounting conservatism was calculated to be -0.826 and the t-test statistic was -2.75 with absolute value less than the critical value of t at 5% error level (1.96), which indicated that this coefficient was significant. The significant value was also calculated as 0.0061 which was smaller than 0.05 level

of error. Since the negative coefficient was obtained, the above finding was not confirmed, therefore, it can be said that company life had no positive effects on accounting conservatism and the fourth sub-hypothesis was rejected.

Sub-hypothesis 5: The board composition has a positive effect on accounting conservatism.
In the first model, the impact factor of the independent variable of the board composition on the accounting conservative dependent variable was -0.967 and the t-test statistic was -3.118 which was smaller than the critical value of t at 5% error level (1.96), which indicated that this coefficient was significant. The significant value was also calculated as 0.001, which was smaller than 0.05 level of error. However, since the negative coefficient was obtained, the above finding was not confirmed, therefore, it can be said that board composition had no positive effects on accounting conservatism and the fifth sub-hypothesis was rejected.

Sub-hypothesis 6: The combination of ownership has a positive effect on accounting conservatism.
In the first model, the impact factor of the independent variable of ownership composition on the dependent variable of accounting conservatism was calculated 0.004 and the t-test was obtained 0.722 with an absolute value greater than the critical value of t at 5% error rate (1.96). It showed that this coefficient was not significant. The significant value was calculated as 0.470 which was greater than 0.05 level of error. Since the obtained coefficient was in line with the hypothesis, the above finding was not confirmed; therefore, it can be said that ownership composition had no positive effects on accounting conservatism and the sixth sub-hypothesis was rejected.

Hypothesis 1: Company characteristics have a significant effect on accounting conservatism.
Given the rejection of the sub-hypotheses except for the sub-hypothesis 3, it is concluded that firm characteristics had no significant effects on accounting conservatism and the first hypothesis was rejected.

The estimation of the second regression model was performed and the results have been presented in Table 9.

Table 9: Second Model Estimates

Dependent variable = financial distress

$$Distress_{it} = \beta_0 + \beta_1 C\_Score_{it} + \beta_2 WC_{it} + \beta_3 RE_{it} + \beta_4 EBIT_{it} + \beta_5 MVE_{it} + \beta_6 Sales_{it} + \varepsilon$$

Variable	Symbol	Coefficient	T statistics	Significance
Conservatism	C-SCORE2	0.049	5.887	0.000
Working capital ratio	WC	0.611	6.397	0.000
Accumulated profit ratio	RE	1.177	10.326	0.000
Earnings before interest and taxes	EBIT	1.141	10.572	0.000
Stock market value	MVE	1.943	9.278	0.000
Sales revenue ratio	SALES	-0.026	-0.667	0.505
Equation constant	C	-0.417	-11.071	0.000
The overall fitness of the model		Significance of the whole model		Fischer statistic = 95.409
		Significance probability		Significant = 0/000
		Investigation of model waste independence		Durbin–Watson statistic = 1.88
		The explanatory power of the whole model		Coefficient of determination = 0.952

The results of the regression model estimation are given in Table 9. The significance level less than 0.05 for the F-statistic indicated that the input variables, including control and independent variables, were significant at a 95% confidence level.

Hypothesis 2: Accounting conservatism has a negative and significant effect on the probability of financial distress.
In the second model, the effect of accounting conservatism's independent variable on the probability of financial distress was calculated to be 0.049 and the t-test statistic was 5.887 with an absolute value greater than the critical t value at 5% error rate (1.96). It showed that this coefficient was significant. The significance value was calculated as 0.000 which was smaller than 0.05 level of error but because the positive coefficient was not in line with the hypothesis of this study, the above finding was not confirmed. Therefore, it can be concluded that there was no significant negative relationship between probability of financial distress and accounting conservatism and the second hypothesis was rejected.

The results of the relationship between the variables of the models are presented in Table 10.

Table 10: Summary of Results

Hypothesis	Description	Result
Hypothesis 1	Company characteristics have a significant effect on accounting conservatism.	Rejected
Sub-hypothesis 1	Company growth has a negative effect on accounting conservatism.	Rejected
Sub-hypothesis 2	The profitability ratio has a negative effect on accounting conservatism.	Rejected
Sub-hypothesis 3	Financial leverage has a positive effect on accounting conservatism.	Confirmed
Sub-hypothesis 4	Company life has a positive effect on accounting conservatism.	Rejected
Sub-hypothesis 5	The board composition has a positive effect on accounting conservatism.	Rejected
Sub-hypothesis 6	The combination of ownership has a positive effect on accounting conservatism.	Rejected
Hypothesis 2	Accounting conservatism has a negative and significant effect on the probability of financial distress.	Rejected

Discussion and Conclusion

Given the rejection of the sub-hypotheses such as the independent variable of company growth, profitability ratio, company life, board composition, and ownership combination except for the sub-hypothesis 3, it was concluded that firm characteristics had no significant effects on accounting conservatism and the first hypothesis was rejected. Due to other externalities and factors that will affect the financial statements and variables, it can be accepted that in this time and market, company characteristics did not have a significant effect on accounting conservatism. The results of the research by Emamgholipour and Mansouri Nia (2013), Foroughi and Abbasi (2011), Ahmad Ahmadpour et al. (2016) were in line with the results of the present study [16-18].

According to the results of the second model, there was no significant negative relationship between accounting conservatism and the probability of financial distress and as a result, the second hypothesis was rejected. In this regard, Bidel et al. (2010), Belekrishnan et al. (2016), Dastgir et al. (2013), Abdi (2013) had different results and Setayesh and Karimipour (2013) and Moghili and Soheili (2015) results were in line with the results of the present study [13, 14, 19-22]. Therefore, according to the statistical results, it is deduced that accounting conservatism due to other conditions of Tehran Stock Exchange such as inefficiency, be government and semi-government, ineffective financing methods, the lack of tendency of managers towards effective conservative accounting practices and abnormal conditions of Iranian economy did not have any effects on the financial distress of the statistical population of this research.

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