The Effect of Accounting Conservatism and its Impacts on the fair Value of the Corporation: an empirical study on Jordanian Public Joint-stock Industrial Companies

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Abstract

This study aims to test the effect of accounting conservatism on the fair value of Jordanian industrial companies during the period 2006 - 2013, based on a sample of 30 Jordanian industrial corporations. The dependent variable of the study includes the fair value of the company, while the independent variables included the accounting conservatism, in addition to five control variables, namely the size of the company, rate of assets realizations, the ratio of debt to ownership, distributed dividends ratio, and proportion of fixed assets. The results showed a variation between the extent of practicing the accounting conservatism by the industrial Jordanian companies and the lower level of accounting conservatism in general. Results also indicated the existence of clear diversity in the size of the Jordanian industrial corporates and a variation in the liability percent and the significant difference in their profits and distributed profits ratios. However, in general their fixed assets ratio is closer. The study concluded, through the use of joint regression, the existence of an inverse relationship between the accounting conservatism and the fair value; where the low accounting conservatism plays a major role in the fair market value of the Jordanian industrial companies. This confirms the negative relationship between the concept of the accounting conservatism and fair value, which reflects implicitly the relationship between the conservatism and the historical value approach. The results also showed that the size if the company's assets and profitability are deemed the most important factors which have positive impact on the fair value of the companies. The ratio of debts impact negatively on the fair value of the company. Meanwhile, the ratio of profits distribution and fixed assets has no effect on the fair value. The results also showed that the size of the company's assets and their profitability is one of the most important factors that have a positive impact on the fair value of the companies, while the ratio of debt negatively impact the fair value, whereas the ratio fixed assets ratio distribution has no effect on the fair value. The study indicated that it is necessary that the applied principles and rules of fair value accounting should not make to disregard the principle of caution, which is the safety valve against any unexpected reflections on the asset values and revenues. The excessive reliance on the fair value may result to increase the exposure of companies to market risks and sudden movements of prices.

Keywords: accounting conservatism, fair value, the value of the company, the Jordanian industrial companies

1- Introduction

Accounting is defined as the process of identifying, measuring and communicating economic information to enable the users of this information to make decisions (Kieso et al., 2012: 2). According to this definition, the accounting information is subject on preparing to a large number of standards, policies and accounting principles which govern the measurement process and accounting recognition to such process. Accounting conservatism or what is known as the principle of caution, is one of the most important and most influential constraints on accounting information because it is required to recognize the lowest value of assets and revenues, as well as the higher values for expenses and losses, i.e. non- profit expectation, but all losses (Basu, 1997: 7). (Watts, 2003) pointed out that conservatism is the recognition of bas news faster than good ones. Despite the considerable criticism of accounting conservatism as it includes pessimism that may lead to distortion of accounting information and make it non- correct- interpretable, and thus its impact of its suitability, reliability and comparability, (Hendrickson, 2008).

However, this did not prevent that conservatism to be deemed as one of the most important accounting concepts that plays an important role in accounting practices and of great interest of the accountants and Auditors (Watts, 2003).

It is noted that we talk about accounting conservatism, that it include asymmetry in the timing of recognition of gains versus losses, so the recognition of losses is quicker, and it includes the assessment of net undervalued assets (Givoly et al, 2007). This means that following the accounting conservatism will make the value of fixed assets in the books of the company closer to their historical value and much less than their market value of the fair value. So, it is possible to observe a consistency, to a large extent, between the principles of historical cost and the concept of accounting conservatism. The adoption of historical cost in accounting measurement raised much argument about the ability of financial statements and reports to serve decision-makers. Although there are many advantages of using historical cost; such as objectivity, credibility and reliability to determine real profits, but using the historical cost includes several flaws, most notably is reducing the accuracy and factual statements of financial position, thus reducing the quality of accounting information because of their lack of credibility and suitability, which is the primary goal of preparing those financial statements (Najjar, 2013 : 467). In the light of the increasing criticism of the data users and accounting information to the historical cost principle, the principle of fair value emerged to address the shortcomings in the historical cost, and to enhance the properties that should be available in the accounting information, including reliability, fitness and precaution (Younis, 2012: 20). The fair value is defined as the price that can be obtained at selling an asset, or the price you paid for the transfer of an obligation in the regular transaction between market participants at the measurement time (IFRS 13, 2013).

By analogy, it can be said that the fair value of any company is the total market value of shares issued by such company. Many studies have pointed out to the impact of accounting conservatism on the stock market; some showed that most of the companies which practice accounting conservatism are exposed to less negative reactions in the market on declaring new stocks (Kim et al., 2012). A study conducted by (Watts and Zuo, 2012) pointed out that accounting conservatism improves the ability of borrowers and enhances the value of the company. While a study conducted by (Penman and Zhang 2002) pointed out that accounting conservatism reduces the profits declared by the company, which may adversely affect the predictive power for future profits, thus it affects the share prices and the overall market value of the company. Based on the foregoing, this study aims to test the impact of the accounting conservatism on the fair value of the Jordanian industrial companies during the period 2006-2013.

2- The Research Problem

The research problem is represented in several aspects of contradictions between the accounting conservatism and the fair accounting value in general, blurred effect of accounting conservatism practices on the fair value of the company, in particular. The accounting of fair value reflects the market value of the company, which requires the calculation of the present value of the asset through the recognition of profits or losses in the value of the asset as a profits or losses belong to the period in which such profits or losses occurred. This is deemed far away from accounting conservatism. The fair value is different from the conservatism in terms of the speed of recognition of unrealized profits in the financial statements, which causes the asymmetry of timing recognition of unrealized profits. The proponents of fair value believe that it provides timely information on unrealized profits, while supporters of accounting conservatism believe it is not appropriate to show the unrealized profits in the accounts due to the incentives caused to the management of the company to attempt to manipulate in the fair profits figures (APR , 2014: 14).

In light of the foregoing, it is important to know whether the accounting conservative practices affect the fair value of the companies or not, and to know whether conservatism leads to consolidate and increase the fair value or to reduce it. In details, it can be said that this research seeks to answer the following questions:

1. What is the effect of accounting conservatism on the fair value of Jordanian industrial companies?
2. What is the impact of other control variables on the fair value of Jordanian industrial companies?

3- The Objectives

In general, this study aims to find out the impact of the accounting conservatism on the fair value of the Jordanian industrial companies. In details, this study aims to:

1. The recognition of the impact of the accounting conservatism on the fair value of the Jordanian industrial companies.
2. The recognition of the impact of other control variables on the fair value of Jordanian industrial companies?

4- Hypotheses of the Study

1. H0: there is no impact of statistical significance to the accounting conservatism on the fair value of the Jordanian industrial companies.
2. H0: there is no impact of statistical significance to the control variables on the fair value of the Jordanian industrial companies.

5- Previous Studies

Due to accounting conservatism impact on the overall outputs of the accounting system and on the qualitative characteristics of accounting information quality of accounting information, many researchers are interested in accounting conservatism. The study conducted by (Nakano et al., 2014) tested the economic consequences of accounting conservatism from the viewpoint of investors in the capital market, through analyzing the impact of accounting conservatism on the level of the investments of the company, its risks and returns of shares in Japan. The study concluded that there is a high conditional conservatism leads to the reduction of investments with a focus that those investments are low risk, while the unconditional conservatism leads to the increase of investments, especially of high risks.

The study conducted by (Watts and Zuo, 2012) examined the effect of accounting conservatism on the value of the company in 2008, which is the international financial crisis. The study used a sample consisting of 2983 non-financial US companies. The results showed that companies which are more conservative in their financial reports realized less negative returns during the period of crisis, and the companies of more conservative in their financial reports had issued more debt papers and made more investments during the crisis period. The results also emphasized that the positive link between the accounting conservatism and the earnings per share during the period of crisis was more pronounced for companies which already suffered from high costs of the Agency. The study indicated that the accounting conservatism improves the company's ability to borrow and reduces useless investments and limits the ability of the management to exploitation, and enhances the value of the company.

The study conducted by (Hamdan, 2011) highlighted the level of accounting conservatism in financial reports, and discussed the relationship of accounting conservatism with the improvement of the quality of financial reports. The study used a sample of 50 Jordanian public joint-stock companies during the period 2001-2006. The study used the quality of the financial report of the company as the dependent variable, while the independent variables included accounting conservatism and eight control factors; namely the external auditor turnovers rate, the auditor office size, company size, percent of the ownership of Board, percent of indebtedness, the size of the Audit Committee, and the financial expertise of Committee members. The study concluded that the accounting conservatism is low level in the financial reports issued by Jordanian public industrial joint-stock corporations. The study also found that there is an important relationship between the extra accounting conservatism and the quality of the financial reports through improvement of the external auditor opinion.

The study conducted by (Lafond and Watts, 2007) tested the impact of information asymmetry on the reservation appears in the financial statements, because the reservation reduces the management capabilities to manipulate the accounting numbers, and therefore reduces the status of asymmetries in information, which leads to an increase in the market value of the company. The study was applied on a sample of 1070 US industrial corporation during the period 1983-2001. The results revealed that the information asymmetry leads to the increase of conservatism in financial statements, and information asymmetry causes the reservation, not vice versa. Many studies also tested the reflection of information and accounting policies on the company share value or the company. A study concluded by (Lyimo, 2014) investigated the conservatism in the Indian capital market, and extent of impact of conditional conservatism on the quality of profits and stock prices. The study used a sample of 500 companies listed in the Bombay Stock Exchange during the period 2006-2012. The results confirmed that the existence of conditional conservatism in the capital market of India. It also showed that the conservatism does not affect the quality of declared profits, but affects the stock prices. Another study conducted by (Shehzad and Ismail, 2014) tested the importance of price to accounting information in banking sector in Pakistan during the period 2008-2012.

The study concluded that the EPS included accounting information more important than book value, and accounting data interpret a large proportion of the stock price. The aim of the study conducted by (Zahra et al, 2013) was to clarify the concept of fair value and the justifications for their use. The study reviewed of possible ways to measure the fair value of the shares, and the possibility of measuring the fair value of the ordinary shares by using earning multiplier model.

The study used a sample of private Iraqi banks listed in the Iraq stock exchange during the period 2009-2012. The study concluded that it is possible to measure the fair value of private banks share by using the said model.

The study conducted by (Lu, 2012) tested the relationship between profits, risks, and the value of the company. The sample of the study consisted of all the companies listed in Taiwan stock exchange during the period 2001-2010. The results indicated the existence of an impact of profits quality on the risks which has statistical significance, as the lower quality of profits lead to leverage the risk of the company. The study showed that low-quality profits lead to lower the value of the company. A study conducted by (Lonascu, 2012) explored the impact of using fair value on the accuracy of analysts' forecast of companies listed in the stock exchange in Bucharest, Romania. The study showed that the accounting literature tends to prefer fair value vs historical cost and accounting conservatism. Therefore, the study focused on testing the impact of these rival accounting standards. The study used 266 displays; each one represents the monthly statements for every company, so that the year 2008 was adopted for the forecast for the years 2009-2010. The study concluded that EPS forecast errors are disclosed in accordance with the generally accepted accounting principles (GAAP) associated positively with accounting conservatism, and negatively associated with accounting policies that are based on fair value.

The aim of the study conducted by (Ismail and Elbolok, 2011) to test the effect of conditional and unconditional conservatism on the quality of the earnings and stock prices in Egypt, and to test the impact of quality of earnings on the stock prices. The study included a sample of the 30 largest public joint-stock Egyptian companies during the period 2005-2009. The results of the study showed that there was a negative impact of conditional conservatism on the quality of profits and share prices of Egyptian companies, while the study did not find any effect of unconditional conservatism on quality of profits but have had a negative impact on stock prices.

A study conducted by (Li, 2009) concluded that the companies which operate in countries with more conservative financial reporting system are characterized with low cost of debt and property.

6. *The Theoretical Aspect of the Study*

A) Accounting Conservatism

(Basu, 1997, p. 7) defined accounting conservatism as seeking to require a higher level of certainty for the recognition of good news as profits, and to require lower level of certainty for the recognition of bad news as casualties. (Watts, 2003) defined accounting conservatism as the asymmetry between verification requirements of profits and losses, so that increased difference between the degree of verification required for profits and degree of verification required for losses mean greater conservatism. (Hamdan, 2012, p. 24) defined accounting conservatism as the disclosure of the minimum values of assets, revenues, and higher values for obligations and expenses.

Researchers generally distinguish between two types of accounting conservatism; namely the conditional and unconditional accounting conservatisms. The conditional conservatism refers to the asymmetric recognition in the profit and loss (Basu, 1997), which accelerate the recognition of bad news, while delaying the recognition of good news. (Ball and Shivakumar, 2005) defined conditional conservatism as the bias disclosure accounting of the low book value of shareholders rights, but the unconditional conservatism is the opposite of the previous type, which indicates the systematic and continuous bias of recognition of income (Beaver and Ryan , 2005). The unconditional conservatism arises by the company use of the accounting principles that lead to decrease the cumulative profits declared.

Generally, we can say that the importance of accounting conservatism arises from the followings:

1. It reduces the asymmetry of information between managers and investors and other relevant parties, through its role in mitigating the impact of inflating profits practices, thereby enhancing the credibility of profits and reduce information asymmetry (Basu, 1997) and (LaFond and Watts, 2007). Accounting conservatism also plays a major role in enhancing the credibility of the management because it includes disclosure of losses in a timely manner (Jaggi and Xin, 2014).

2. The accounting conservatism is an important means to reduce the possibility of suing the company management by related parties due to its accounting policies, as it is likelihood of prosecution the management because of the accounting policies designed to inflate the value of the assets is higher than the likelihood of being sued because of policies designed to reduce the value of assets (Jaggi and Xin, 2014).

3. The tax justifications are deemed the main motives for using the accounting conservatism, because the early recognition of losses and the delay the recognition of revenues until they occur will lower taxable income and current tax on the company and delayed them to later periods (Watts, 2002).

The Advantages and Disadvantages of Accounting Conservatism

The accounting conservatism includes several advantages and features, most notably; it constitutes an appropriate tool to face optimism or exaggerated uncertainty of the accountants and managers when evaluating assets and liabilities of the enterprise. It leads to objective outputs and accounting information prepared in accordance with generally accepted accounting standards. It also protects the accountants from risks arising from the dissemination of accounting information may prove to be incorrect late, as well as the non-dissemination of accounting information prove their validity later. The users of the financial statements prefer the conservative number because such number give them a greater margin of security against any adverse or unexpected results (Iqbal and Qdhah, 2014, p. 209). But at the same time, the accounting conservatism includes some flaws and drawbacks, such as it contravenes some principles and qualitative characteristics of accounting information, for example impartialness, comparability, stabilization, reliable representation and consistency. It may lead to the distortion of accounting information and show them in values differ from the true values. The exaggeration in conservatism may harm some users of accounting information (Iqbal and Iqdhah, 2014, p. 309).

- Measures of Accounting Conservatism

Accounting literature refers to several measures of accounting conservatism, mainly (Wang et al, 2009):

1) Asymmetric timeline of profits: The study conducted by (Basu, 1997) indicated that under accounting conservatism, the bad news will be reflected on profits faster than good news, so that negative revenues will fully reflect the entire profit of the period they occurred. The positive earnings dividends will reflect the profits of the period partially, thus the profits will be more closely associated with the movement of the share price in periods described with bad news compared to the periods of good news (Givoly & Hayn, 2000). (Basu, 1997) used the following equation to measure the conservatism:

$$EPS_{it}/P_{it-1} = \gamma_0 + \gamma_1 R_{it} + \gamma_2 D_{it} + \gamma_3 (D_{it} \bullet R_{it}) + u_{it}$$

Where (EPS) represents Earnings Per Share, (P) is the share price at the beginning of the year, (R) is the rate of compound earning per share, and (D) is a fanciful variable takes the value of (1) if the rate earning per share is less than zero (0) (bad news) and (0) values if the earning of a share more than (0) (good news).

2) Measurement of asymmetric receivables to cash flow: researchers (Ball and Shivakumar, 2005) improved measure of asymmetric receivables to cash flow, which is based on the following form:

$ACC_t = \beta_0 + \beta_1 DCFO_t + \beta_2 CFO_t + \beta_3 DCFO_t \times CFO_t + \varepsilon_t$

where ACC is the total receivables, and CFO is the cash flow and DCFO fanciful variable valued zero (0) if the cash flow is greater than or equal to (zero), the values of (1) if the cash flow is less than (zero).

3) Measure of book value to the market value: As the accounting conservatism system tends to reduce the net book value of the company to the actual economic value; if the ratio of book value is reduced to the ratio of market value, signifying a high degree of accounting conservatism vice versa (Wang et al, 2009). A study conducted by (Givoly & Hayn, 2000) indicated that whenever the ratio of the book value to the market value ratio is less than one, this indicates the existence of conservatism (with stability of other factors).

B) Fair Value Accounting

The traditional method of assessing the assets and liabilities is based on the principle of historical cost, which requires registration of assets and liabilities according to their historical values, that is the value has been paid at the time of purchase of an asset or incurred for certain obligation (IASB, 2010).

The historical cost is reliable and verifiable, as it is based on actual and free of bias transactions, but it is characterized by the lack of importance in the decision-making process, because it does not reflect the current market conditions, where the historical cost measurement makes the statements of the financial position less significant and realistic, because it is based on the past, which may lead to loss of information in the financial statements for many constituents of credibility and feasibility which are the primary goal of preparing the financial statements (Paul , 2013). The principle of historical cost is connected with accounting conservatism, allowing for adjustments in the value of assets and liabilities, only through inclusion of bad news.

Eventually, this led to reducing the value of assets and overstated liabilities, thus leading to bias. Since 2011, the precautionary principle was removed from within the conceptual framework of international accounting standards because it came obvious it is consistent with impartiality required (IASB, 2010: BC3.27). In the light of the foregoing, due to the many criticisms of historical cost, especially in light of constant changes in the economic environment, and for the need for a valuation method different from the historical cost one, the fair value principle emerged (Shaffer, 2012), which has been endorsed by the international financial reporting standards (IFRS). No doubt that the concept of fair value revolutionized the traditional accounting theory and moved it to new perspectives and frameworks, and made a comprehensive change in the structure of financial statements and significances. The concept of fair value has been generated as a result of the developments of the accounting theory in recent decades and which have been elaborated in international accounting standards related to fair value (Salah, 2008).

The guidelines relevant to fair value according to the international financial reporting standards (IFRS) are covered by many standards. The international accounting standards Board (IASB) issued the international financial reporting standard No. (13) in connection with the fair value measurements (IFRS 13: Fair Value Measurement) which is an essential source of guidance to measure the fair value wherever it is required or permitted in accordance with financial reporting standards (John and Goind, 2012). Fair value is defined, according to the international accounting standards Board (IASB, 2011), as the price that can be obtained from the sale of an asset or can be paid to transfer a particular obligation in a certain transaction organized between the participants in the market at the date of measurement. It is also defined as the price at which the asset can be swapped out or an obligation is paid between two parties on mutual consent and wish of sale and purchase process without having any interests in between (Al-Sa'afein, 2005, 13).

- The Advantages and Disadvantages of Applying Fair Value Accounting

The application of fair value accounting includes so many advantages, perhaps the most notably, it expresses the reality of the economic condition and profits of the enterprise, and thus, it accurately expresses the concept of value and economic profit. It fairly reflects that in the financial statements of the enterprise. The application of fair value is consistent with the concept of conservatism of the capital, taking into account the change in the purchasing power of money. Using fair value is more appropriate for the purposes of forecasting, financial analysis, and decision-making compared to similar enterprises (Najjar, 2013: 469). Despite the above benefits, but the use of fair value involves many flaws, including determination and recognition of the fair value due to personal bias and following different bases of measurement, which may result to variant estimates, and complicate the application of fair value accounting on the investments, especially in the absence of market prices, as well as the futility of re- evaluation in some cases (Najjar, 2013: 469).

- Fair Value Measurement Approaches

The international financial reporting standard No (13) identified, under title "(IFRS 13: Fair Value Measurement" issued in 2013, three key approaches for measuring fair value, which we are going to illustrate as follows (IFRS 13: 26):

1. **Market Approach**: this approach uses prices and other relevant information arising from market transactions involving assets, identical or similar liabilities or a group of assets and liabilities (such as enterprise).
2. **Cost Approach**: it is called the current replacement cost approach, based on the amount required at present to replace the original (original replacement cost).
3. **Income Approach**: this uses the evaluation methods through converting the future amounts (cash flow, or income and expenses) to a single amount currently discounted, where it reflects the current market expectations for future amounts.

C) The Value of the Company

Value of the thing refers to the price or its price, which is the fair cash amount to be paid for getting such thing, so the value of the company is to monetary amount or its fair price equivalent of each company in case of continuity (Hawwari & Ubeid, 1999). The value must be determined in money and be fair, as it should be determined on the basis of supply and demand acceptable to all parties. Fair value must express the value of the entire company (Shawawreh, 2012).

The concept of the company value reflects the investors' point of view towards the company, which is often linked to stock prices. Maximizing the value of the company, thus maximizing the shareholders wealth is deemed the most important corporate objective to achieve (Sujoko, 2007). There are many theories dealing with the value of the company and shows the factors affecting them. Agency Theory illustrated that the delegation of the company management to manage the company on behalf of the shareholders may encourage the managers to make decisions that may serve their own interests. Therefore, such contradiction may arise as a result of different interests between managers and the shareholders (Putu et al., 2014, P. 37-38). The stakeholder theory shows that the company should provide benefits to stakeholders, and the social responsibility must not be limited to achieve the interests of the shareholders, but to include all stakeholders in the company (Waryanti, 2009). Capital Structure Theory indicates that assumption of the capital market perfection makes the capital structure of the company ineffective on its value, but if any taxes imposed on the company, it will try to use more debts and thus increase the value of the company (Modigliani & Miller, 1958). While the Signaling Theory reflects that the high profitability of the company will show good future to such company, and encourage the investors to response positively to such company, which increases the value of the company (Sujoko, 2007).

- Regular Stock Assessment Models & the Calculation of the Fair Value

Researchers developed a number of accounting, financial and mathematical models that can be used for calculating the fair value of the share. Herein below, we review the most important models.

I. Accounting Models:

The models include the international accounting standards for the measurement of fair value, especially international financial reporting standard No (13), entitled (IFRS 13: Fair Value Measurement) which includes three approaches to measure the fair value; namely the market model, cost model, and income model as explained herein above.

II: The Financial Models

The financial models include the following:

1) Dividends Discount Model: These models are based on the share value associated with the cash flows expected therefrom, which are represented in distributions. Accordingly, the current share value depends on the expected distributions, which are supposed to last forever. The distribution can be fixed, or grows annually at a fixed rate, and it can be variable. Accordingly, three models have been developed to evaluate the share assessment; namely dividends and fixed distributed profits model, the growth of distributed profits at fixed rate, and distributed profits at variable rate model (Obeidat, 2008: 60-62).

2) Earnings Valuation Model: this model is to evaluate the regular shares based on their profitability. Profitability of a share is calculated by dividing realized earnings by the number of shares issued. The regular share can be assessed through the calculation of the present value of all the future profits expected from the share (Zahrah et al, 2013, p. 201).

3) Double market price of a share to its profitability (Price to Earnings Ratio): This model is based on the relationship between the share market price and its profitability. If this relationship has been identified, which represents the double price, then the share value can be calculated through multiplying the doubled price by share profitability (Zahrah et al, 2013 P: 201).

7. Data and Methodology

- Study Community and Sample

The study community consists of all Industrial Public Shareholding Companies listed in the Amman stock exchange, which are 69 companies at the end of 2013.

The study sample included 30 Jordanian industrial companies have been selected randomly. The annual financial statements of these companies have been gotten through the business directory issued by Amman stock exchange during the period 2006 - 2013.

- Study Model

Through access to the methodologies used in previous studies aimed to know the factors that affect the value of the company, especially the study conducted by (Rajhans and Kaur, 2013: 74), and in the light of the objectives of this study to achieve, the standard model has been developed for the this study, which tests the impact of the accounting conservatism on the fair value of the company.
The model can be formulated as follows:

$$M_{CAP\,i,t} = \beta_1 + \beta_2 CONS_{i,t} + \beta_3 TA_{i,t} + \beta_4 ROA_{i,t} + \beta_5 D/E_{i,t} + \beta_6 DPO_{i,t} + \beta_7 FA_{i,t} + i$$

Where $M_{CAP\,i,t}$ is the normal logarithm of the market value (fair) of the company in the period t and $CONS_{i,t}$ is the measurement of the accounting conservatism of the company (i) in the period (t), while the remainder independent variables are control variables, where $TA_{I,t}$ are normal logarithms of the assets size in the company (i) in the period (t) and ($ROA_{i,t}$) which is earnings rate of the assets of the company (i) in the period (t) and ($D/E_{i,t}$), which is the ratio of bedts to the ownership of the company (i) in the period (t), $DPO_{i,t}$, which the profit distribution ratio of the company (i) in the period (t) and $FA_{i,t}$, which the ratio of the fixed assets to the total assets of the company (i) in the period (t).

- The Procedural Definitions of the Study Variables

Dependent variable: **Market Capitalization-MCAP:** Based on the definition of Fair value by the international accounting standards Board (IASB, 2011) as the price that can be obtained from the sale of an asset or paid to transfer a particular liability in the a transaction organized between the participants in the market on the measurement date. The fair value of a company can be calculated through computing the total value of market value per share issued by the company. This approach also in line with agreed with the Market model specified in financial reporting standard no. (13) (IFRS-13). The study will adopt and the normal logarithm of the total market value of the company shares at the end of each year of the years included in this study as a measurement of the fair value of the company.

Independent variables:

1) Accounting Conservatism Practices: (Accounting Conservatism-CONS): accounting conservatism will be measured by using the ratio of book value to market value, i.e. dividing the property rights on the market value of the company shares. (Beaver & Ryan, 2000) and (Jain & Rezaee, 2004) mentioned that the low ratio of book value to the market value to less than one indicates to acceptable level of accounting conservatism in the financial reports, which indicates that the company has been assessed in book value less than its actual value, and therefore it has accounting conservatism (Roy Chowdhury and Watts, 2006).

2) **Total Assets (TA):** the size of the company's assets was measured by the normal logarithm of total assets. This variable aims to measure the difference between the corporations in terms of their size and the impact of that on the market value. It is expected that the company size would have positive impact on its market value (Putu et al., 2014).

3) **Rate of Return on Assets (ROA)**: the rate of return on assets is deemed one of most measures of profitability of the company, as it reflects the company's ability to achieve profits compared to the size of invested assets. Several studies, such as (Imelda, 2001) showed that the impact of profitability is positive on the value of the company, so that the more profitable the company is the greater value of the company will be.

4) **Debt to Equity Ratio – D/E**: liabilities are the most important effects on the value of the company. Several studies, such as (Eriotis, 2007) showed that the debt ratio has a positive effect on the value of the company, because of the tax savings resulting from the debt. While other studies, such as (Kuben, 2008), have found the effect of liabilities is negatively affected the value of the company. This study will depend on computing the liability ratio through dividing liability on the shareholders equity.

5) **Dividends Payout Ratio -DPO**: dividends payout ratio is considered one of the factors affecting the company's value, because the stable dividends payout ratio reflects that the company distributes the dividends regularly, which appropriate mechanism to the investors to recover their investments in the company; thus that

makes investors assess the company value better than other companies (Rajhans and Kaur, 2013). This study will measure the distribution ratio by dividing the annual dividends on the company's net profits.

1) **Fixed Assets Ratio to Total Assets (Fixed Assets Ratio - FA):** the significance of company fixed assets constitutes an important source for payment in case of bankruptcy of the company, so whenever the fixed assets have great value, more confidence is given to the investors that they will recover a part of their funds in the event of bankruptcy of the company. Therefore, the fixed assets constitute a protection to the creditors and shareholders of the company, which increases the preference of investors for the company shares, and thus increases the value of the company (Rajhans and Kaur , 2013).

8. The Results of the Statistical Analysis

This section addresses the descriptive statistics of the variables of the study, and the results of the regression analysis to investigate the effect of the accounting conservatism on the fair value of the Jordanian industrial companies.

- The Descriptive Statistics

Table No. (1) shows the descriptive statistics related to the variables of the study, through which we can observe the followings:

Table (1): **Descriptive Statistics of the Variables of the Study during 2006 – 2013**

	MCAP	CONS	TA	ROA	D/E	DPO	FA
Mean	7.246	1.320	7.430	0.022	0.829	0.011	0.728
Median	7.014	1.004	7.275	0.027	0.484	0.010	0.740
Maximum	9.588	7.474	9.088	0.840	17.094	0.041	0.891
Minimum	5.568	0.223	5.742	-0.969	0.006	0.000	0.552
Std. Dev.	0.773	0.998	0.599	0.133	1.614	0.011	0.092
Skewness	0.125	0.385	0.557	-1.025	7.631	0.515	-0.332
Kurtosis	3.113	3.169	3.931	12.869	7.643	4.038	4.267
Jarque-Bera	3.989	4.654	18.976	13.063	14.643	19.772	9.735
Probability	0.1866	0.1652	0.0003	0.0017	0.0019	0.0003	0.0077
Observations	240	240	240	240	240	240	240
Cross sections	30	30	30	30	30	30	30

- **Market Capitalization (MCAP):** The average of fair market value of the companies included in the sample during the period (2006-2013) is approximately 7.25 logarithm (or equivalent to 17.6 million JDs). It has been noted that is a clear discrepancy in the market value of the Jordanian industrial companies, shown in the wide range between the maximum value and minimum value, the higher the value of the standard deviation.
- **Accounting Conservatism (CONS):** Accounting reservation was measured by using the ratio of book value to market value of the share, so the decline of this ratio to less than one, it means there is an acceptable level of accounting conservatism. The average ratio of the book value to the market value for the sample companies during the study period was about 1.32, which means that the book value of the share is greater than the market value, and thus indicates the decrease of accounting conservatism practices in the Jordanian industrial companies. On the other hand, the reason of the increase in book value compared to the market value may be resulting from the decline prices of Amman Exchange Stock since 2009, which led to lower the general index of the shares of all the companies listed in the Exchange Stock by about 31%, and decline of the index of the shares if the industrial companies about 32%, during the period (2009-2013). The ratio of book value to the market value ranged from 0.22 to 7.5, with a standard deviation (1) approximately. This reflects the discrepancy of accounting conservatism level from one company to another and from a year to another.
- **Total Assets (TA):** The average size of the sample companies' assets during the study period, was approximately 7.43 normal logarithm (equivalent to approximately 26.9 million JDs). The companies size ranged 5.74 normal logarithm (552,000 JDs) to 9.09 logarithm (1224.6 million JDs), with a standard deviation 0.6 logarithms. In the light of the foregoing, a variation can be observed in the size of the companies involved in the study sample, so these companies included small, medium and large scales companies.

- **Return on Assets (ROA):** The average rate of return on assets for the sample companies during the study period was about 2.2%, and the rate of return ranged from (- 96.9% to 84%), with a standard deviation 13.3%, which indicates large differences of the Jordanian industrial companies profitability.
- **Ratio of Debt to Equity (D/E):** the average ratio of debt to equity of the sample companies during the study period is about 0.83 times. The ratio ranged from 0 to 17 times approximately, with a standard deviation of 1.6 times, reflecting the difference of the ratio of debt from one company to another and from one year to another.
- **Dividends Payout Ratio:** The average rate of dividends payout ratio in the sample companies during the study period was about 1.1%, and the ratio ranged from 0% to 2.5%, with a standard deviation of 1.1%. These results reflect the existence of differences between Jordanian industrial companies in terms of dividend payout ratios, and thus different dividend payout policies. It also indicates the lack of stable dividends payout in the sample companies.
- **Fixed Assets Ratio** (**FA**)**:** The average fixed assets ratio of the sample companies during the study period was about 73%, and ranged from 55% to 89%, with a standard deviation 9.2%. This indicates a convergence of fixed assets ratio in the Jordanian industrial companies.
- **Other Statistics:** Skewness & Kurtosis statics show that the shape of distribution of the dependent variable and to the accounting conservatism is close to the normal shape of distribution, while the distribution of the remaining variables is different from the normal shape. The statics of Jarque-Berra show and its importance that the distribution of the dependent variable (MCAP) and the accounting conservatism (CONS) follows the normal distribution shape, while the rest of variable do not.

- *The Results of the Regression Analysis*

This section is designed to test the impact of the accounting conservatism practices on the fair market value of the Jordanian industrial companies by applying the data of the sample consisting of 30 Jordanian public shareholding companies during the period 2006-2013. The method of pooled data regression will be used as it is convenient to the nature of the data used in this study. This method will be used if the data contains a timeline and through it both sectors. Table (2) shows the outputs of regression analysis of the study model.

Table (2): The Results of the Regression Analysis ^(*) of the Study Model

Variable	*Coefficient*	*t-Statistic*	*Prob.*
C	-0.2335	-1.7089	0.0890
CONS	0.2669	18.1916	0.0000
TA	0.5714	6.6599	0.0000
ROA	0.1938	2.4089	0.0169
D/E	-0.1011	-5.8008	0.0000
DPO	0.1651	0.2907	0.7716
FA	0.0035	0.0424	0.9662
R-squared			0.8324
Adjusted R-squared			0.8213
Durbin-Watson stat			1.9215
F-statistic			285.211
Prob (F-statistic)			0.0000

(*) Method: Pooled EGLS (Cross-section weights)
- White diagonal standard errors & covariance (d.f. corrected).

Through the above table we can conclude the following results:

- The coefficient of the accounting conservatism (CONS) was positive and has statistical significant at moral level 5%, which means that the decline of the book value ration to the market value ratio, which means high level of accounting conservatism leads to lower the market value of the Jordanian industrial companies. This Indicates that greater conservative accounting practices would reduce the net asset value and net profits, and thereby leads to reduce the company's value. While in case of lowering conservatism level, it would lead to the disclosure of the greater net assets value of the company, and higher profits, thus increases the value of the company. This result is consistent with several previous studies, such as (Ismail and Elbolok, 2011) study, which concluded that the increased accounting conservatism reduces the share prices of the Egyptian

companies, as well as consistent with the study conducted by (Lyimo , 2014) which concluded that accounting conservatism affects the share value. The result contradicts the conclusions of the study conducted by (Watts and Zuo, 2012) which concluded that the accounting conservatism improves the company value.

- The coefficient of the total assets was positive and has statistical significant at the moral level 5%, which means that the increase of the company size contributes to the increase of its market value. This result is consistent with what is expected, because the increase of assets size contributes to the increase of the book value of the share, and thus the increase of the market value of the share and market value of the whole company. It is also in line with the previous studies, such as the study of (Putu et al, 2014).

- The coefficient of Returnson Assets was positive and has statistical significance at eh moral level 5%, which means that the increase in the profitability of the company push to improve the company's market value. This result is consistent with what is expected, and with the findings of many previous studies like the study of (Imelda, 2011).

- the coefficient of the debt to equity was negative and statistically significant at the moral level 5%, which means that the increase in the debt ratio leads to a reduction in the market value of the company. This result is consistent with the (Kuben, 2008) study.

- The coefficient of dividends payout ratio (DPO) had not statistically significant impact at the moral level 5%, which means the dividends payout policy does not affect the market value of the Jordanian industrial companies. This result is in contrary to what is expected and the findings of previous studies; such as the study of (Rajhans and Kaur, 2013), which indicated that the dividends distributed had a positive impact on the market value of the company. The interpretation of this result may be due to many reasons; such as poor pricing efficiency in Amman Exchange Stock which cause weak response of the share price to the increase or decrease of dividends payout ratio.

- Fixed Assets ratio coefficient had not impact of statistical significance at the moral level 5%, which means that the fixed assets (FA) ratio does not affect the market value of the company. This result is contrary to what is expected, as well to the findings of previous studies; such as the study conducted by (Rajhans and Kaur, 2013). The interpretation of this result is connected to the weak interest of the investors in Amman Exchange Stock in the indicators issued by companies, which causes poor response to share prices.

- The adjusted explanatory power (adj.R2) amounted for the independent variables 82%, which is relatively high and reflects the explanatory power of the independent variables in explaining the change in the dependent variable. The statistical value (Durbin-Watson) for serial correlation in the dependent variable value was about 1.92, which is close to (2), which means that there is no problem in the serial correlation in the values of the dependent variable, thus confirms the data validity and adequacy for regression method. Finally, F value (Prop. F-statistic) its importance indicates to the fitness of Study Model (Goodness of fit).

Findings and Recommendations

The aim of this study is to test the effect of the accounting conservatism and its reflections on the fair market value of the industrial companies. Based on the results of statistical analysis, the results showed a difference in the extent of practicing accounting conservatism by the Jordanian industrial companies and low level of accounting conservatism in general. The results indicated the existence of apparent diversity in size of the Jordanian industrial companies, and contrast of debt ratio in the companies, as well as significant difference in profitability and dividends payout ratios. However, fixed assets ratio is deemed generally convergent. The study found that low accounting conservatism plays significant role in increasing the fair market value of the Jordanian industrial companies, which emphasizes the negative relationship between the accounting conservatism concept and fair value. This implicitly would reflect the close relationship between conservatism and the historical value approach.

The results also showed that the size of the company's assets and their profitability is one of the most important factors that have a positive impact on the fair value of the companies. The debt ratio negatively impacts the fair value, whereas dividends payout ratio and fixed assets ratio had no effect on the fair value. Therefore, based on the findings reached, this study recommends the need that we must neglect the caution principle in applying the fair value accounting principles and rules. The low accounting conservatism in the Jordanian industrial companies could lead to dangerous dimensions to the companies and investors in its share in general.

The study confirms that accounting conservatism is a safety valve against any unexpected reflections in the asset values and revenues, while the excessive reliance on fair value may lead to increase companies' exposure to the market and sudden movement of the prices risks. The other studies also recommend the need to explore aspects of contradiction between the accounting conservatism and the fair value, to develop recommendations to legislators and accounting standards to integrate conservative practices within the framework of fair value. The study also recommends the need to enhance the disclosures by the public shareholding companies, especially in connection to the financial statements, and create systems that help to speed up disclosure of such data to the investors, so they would be available on time which would help in increasing the pricing efficiency.

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