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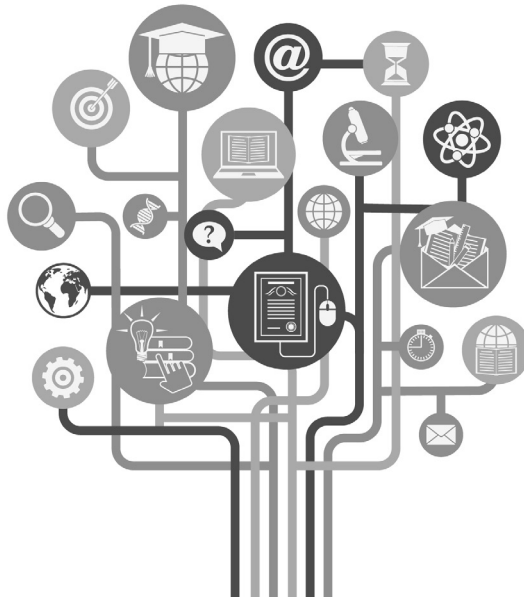
Effect of Accounting Conservatism on Cost of Capital of Listed Companies in Thailand

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Abstract

This study was conducted to examine the effect of accounting conservatism on the cost of capital, which consisted of cost of equity, cost of debt, and the weighted average cost of capital, for listed companies in Thailand from 2018 to 2019. The samples were 906 firm-year observations. The data were analyzed by multiple linear regression at a significance level of .05. The results revealed that accounting conservatism negatively impacted the three types of cost of capital. The findings of this study benefit investors and lenders in terms of their investment decision. In case their risks are lower, the cost of capital is also reduced. This reflects investor confidence in the Stock Exchange of Thailand and the suitability of accounting practices determined by the Federation of Accounting Professions.

Keywords : Accounting Conservatism; Cost of Capital; Cost of Debt

Factual Background and Statement of Problem

To make an investment decision in a company shares, investors need information about the company. If the market price of the securities only reflects the price and volume in the past, it is considered a market

with weak-form efficiency according to the concept of an efficient market suggested by Fama (1970). Thus, investors cannot make excess profits by using technical analysis to forecast future prices. As an emerging market, the Stock Exchange of Thailand was confirmed as a weak-form efficiency one (Jenwittayaroje, 2020) in providing information compared to developed markets, such as the United States. This causes information asymmetry between managers and shareholders to arise (Prommin, Jumreornvong, Jiraporn, & Tong, 2016), as also earnings management (Dye, 1988). Thus, investors demand a higher risk premium which leads to a higher cost of capital for the company (Hughes, J.Liu, & J.Liu, 2007).

An agency problem arises due to information asymmetry, or when information regarding the firm is provided insufficiently, unequally, and not in a timely manner to stakeholders, such as investors, shareholders, or creditors. They reduce the firm value in emerging markets. However, accounting conservatism can be used to decrease information asymmetry (LaFond & Watts, 2008). There was evidence in Taiwan showing that information asymmetry was lower when accounting conservatism was applied (Chi and Wang (2010). Thus, accounting conservatism has been introduced to apply in the management mechanism to increase the firm value and cash flow (Chi, Liu, & Wang, 2009).

Accounting conservatism benefits firms with equity-based capital structures since the main users of financial reports are investors. Typically, investors prefer lower rates of returns from firms with timely loss information (Garcia Lara, Osma, & Penalva, 2011). In the United States, firms with accounting conservatism encounter lower negative market reactions during seasonal equity offering (SEO) due to lower financial costs (Kim, Li, Pan, & Zuo, 2013). When buying stocks of a firm with high accounting conservatism, investors tended to be less protective.

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The reason behind this is that the need to audit profits over losses based on accounting conservatism limits the management incentives and opportunities for overstating figures in the financial statements.

Conflicts of interest between equity holders (owner) and bondholders (the creditor) may occur in firms with leverage in capital structures. The policies imposed by the management appointed by equity holders often benefit equity holders. However, the problem can be prevented by timely loss recognition based on accounting conservatism since it reduces retained earnings used as the basis for calculating the dividend payment, which must be specified in the debt covenants. Thus, the possibility that the dividends will be paid to equity holders while still paying interest to bondholders tends to be less (Ahmed, Billings, Morton, & Stanford-Harris, 2002). Since accounting conservatism reduces the downside risk of lenders, lenders will reward their borrowers by lowering interest rates.

Even though certain studies found that conditional conservatism increases the cost of equity capital (Biddle, Ma, & Wu, 2016), most of the previous studies found a more inverse relationship (Goh, Lim, Lobo, & Tong, 2017; Khalifa, Othman, & Hussainey, 2018; Solikhah & Jariyah, 2020). It is interesting to find out whether accounting conservatism can build confidence among investors and lenders, and reduces the cost of capital in the Thai context.

Research objectives

The objectives of this study are

1. To examine the effect of accounting conservatism on the cost of equity,
2. To examine the effect of accounting conservatism on the cost of debt, and
3. To examine the effect of accounting conservatism on the weighted average cost of capital.

Literature Review

Agency Theory

Jensen and Mecking (1976) explained the relationship between the shareholder (the principal), and the manager (the agent). Since shareholders are unable to manage the business on a daily basis, it is necessary to hire managers to act on their behalf. The relationship between the two parties will remain smooth if the manager performs their duties for the best interest of the shareholder. However, if the manager transfers the business interests of the business to their interests, it leads to Type I Agency Theory, which is conflicts of interest between shareholders and managers. In addition, Type II Agency Theory arises from controlling shareholders exercising voting rights that exceed their rights to the shares they hold to take advantage of minority shareholders. This problem can be in the form of imposing a policy that provides bonuses and high-rate compensation to their family members (Shapiro, 2005), or conflicts between shareholders and bondholders due to the policy of paying too many dividends to shareholders. This is considered the transfer of wealth from bondholders to shareholders, which causes the risk of default payment to bondholders (Ahmed et al., 2002). Obviously, most of the agency problems are caused by information asymmetry when the agents with more information take advantage of less-informed principals (Verrecchia, 2001).

Information asymmetry

Rock (1986) suggested that there are two types of investors: informed investors and uninformed investors. It is believed that an informed investor invests when the stock price is predicted to be higher than the IPOs, known as 'underpriced', and does not invest in stocks that their prices are expected to be lower than the IPOs, known as 'overpriced'. In contrast, uninformed investors invest in both underpriced and overpriced stocks.

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Information asymmetry among investors occurs when uninformed investors trade with informed investors. It was found that uninformed investors take risks and demand increased risk premium (Easley & O'Hara, 2004). Moreover, information asymmetry affects risk premium and increases costs of capital (Hughes et al. (2007).

In addition, information asymmetry can occur when the borrower does not disclose negative information about his actual financial position or fail to forecast a worst-case scenario, such as job loss, or unexpected expenses. This is the reason why unsecured loans have a high cost of debt. Even though the lender can check the borrower's credit history and salary, bad luck cannot be predicted. Thus, the lender charges a risk premium to compensate for information asymmetry.

Capital Structure Theory

The capital structure includes debt financing and equity financing to expand the business, develop its potential, and increase opportunities for future growth both. If the firm has an appropriate capital structure, the Weighted Average Cost of Capital (WACC) will be reduced. Thus, shareholders obtain benefits from debt and increase their wealth. Modigliani and Miller (1963) found that, in reality, the markets were imperfect due to taxation. Thus, firm value based on debt financing is greater than none debt financing. This is a result of a tax shield from debt in order to save income tax and reduce financial costs.

The trade-off theory suggested by Kraus and Litzenberger (1973) presents that firms have to compare the benefits and risks (Trade-offs) received from incurring debt in order to use optimal capital structure to increase firm value. Myers (1977) found that even though debt financing could lead to tax reductions, it increases the risk and causes more financial distress problems. When the firm has more debt, the cost tends to be more than the tax benefits. As a result, the value of the business decreases.

Myers and Majluf (1984) introduced the Pecking Order theory by claiming that firms do not need an appropriate capital structure. Instead, firms should first provide hierarchical financing using in-house funds. If the fund is not enough, firms should seek external finance by choosing the most secure securities: debt, convertible debentures, and equity, respectively.

Accounting Conservatism

According to a study by (Basu, 1997) in the United States, the relationship between profits and negative returns (bad news) was higher than the relationship between profits and positive returns (good news) since accountants have a higher demand to examine good news in their financial statements rather than bad news. This concept is widely known as "accounting conservatism" in the form of conditional conservatism, which is based on the economic bad news that forces accountants to record net asset value devaluations when the economic benefits of the asset drop. This concept is applied to the measurement of inventories at cost or market prices below the devaluation for goods with unfavorable economic news, such as losses, obsolescence, damage, and impairment of assets. There is also "unconditional conservatism", which is an accounting practice that keeps the book value of net assets low due to pre-defined accounting processes from the beginning (Beaver & Ryan, 2005). In other words, a firm uses the double-declining balance depreciation method instead of the straight-line depreciation method even though the latter reflects better economic benefits of the asset. The application of such an accounting policy causes the entity to record assets in the statement of financial position as less than they should be.

In 2010, the Financial Accounting Standard Board (FASB) removed accounting conservatism from the financial reporting framework since it was believed that accounting conservatism caused bias in accounting information, and is inconsistent with the quality of neutrality of financial

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reports (FASB, 2010). However, in 2018, the International Accounting Standard Board (IASB) issued the revised conceptual framework for financials by exercising accounting conservatism to support a neutral depiction. IASB defined accounting conservatism as the exercise of caution while making judgments under conditions of uncertainty) (IASB, 2018).

Previous studies showed that timely loss recognition improved a company's ability to access funding. Reduce management aggressive profit management, and provide reliable and transparent account information to external investors (Francis, Hasan, & Wu, 2013; Kim et al., 2013). If the investors are confident in the information presented by the company, the cost of capital tends to be lower. Similarly, Khalifa et al. (2018) studied the firms from 13 MENA countries from 2004 to 2009 and found that accounting conservatism negatively influenced the cost of equity. In addition, Hu and Jiang (2018) also revealed that accounting conservatism reduced the positive relationship between the cost of debt and excessive risk incentives in firms in the United States from 1994 to 2014.

Conceptual Framework

Since information asymmetry makes uninformed investors more vulnerable, they require an increased risk premium (Hughes et al., 2007). Similarly, lenders need more risk premium to compensate for the high default risk caused by information asymmetry (Ivashina, 2009). However, with the strict profit auditing principle of accounting conservatism, information asymmetry can be reduced (LaFond & Watts, 2008). This signals the quality of financial information since the variance in cash flows that the company will receive in the future is reduced (Lambert, Leuz, & Verrecchia., 2007), and leads to a reduction in the cost of capital (Zare, Heidari, Salehi, & Jourkesh, 2013). Furthermore, the previous studies have discovered that the leverage ratio, total asset, industry fixed effects, and year fixed effects had an impact on the cost of capital (Anderson, Mansi, & Reeb, 2004; Nuanpradit, 2014). Thus, the conceptual framework is presented in Figure 1 as follows:
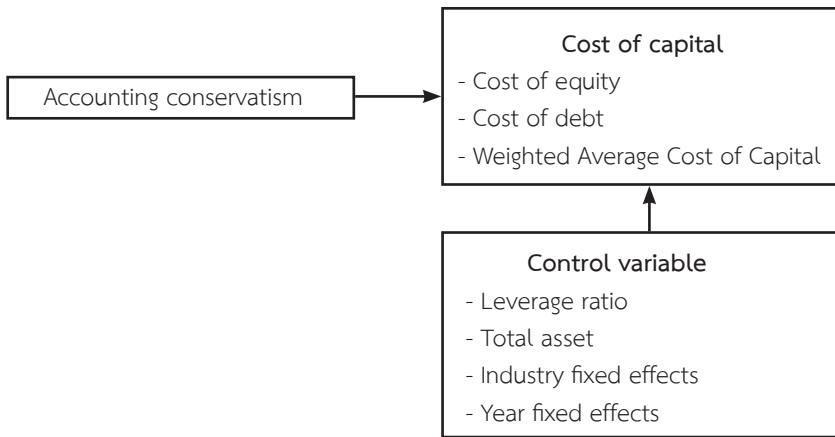
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┌─────────────────────────────────┐
│ Cost of capital                 │
┌─────────────────────────────┐   │ - Cost of equity                │
│ Accounting conservatism     │──▶│ - Cost of debt                  │
└─────────────────────────────┘   │ - Weighted Average Cost of Capital │
                                   └─────────────────────────────────┘
                                                    ▲
                                   ┌─────────────────────────────────┐
                                   │ Control variable                │
                                   │ - Leverage ratio                │
                                   │ - Total asset                   │
                                   │ - Industry fixed effects        │
                                   │ - Year fixed effects            │
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Figure 1 Research Framework

Research Hypotheses

H1: There is a negative effect of accounting conservatism on the cost of equity,

H2: There is a negative effect of accounting conservatism on the cost of debt, and

H3: There is a negative effect of accounting conservatism on the Weighted Average Cost of Capital (WACC).

Research Methodology

Population and Samples

The population used in this study were 789 companies listed on the Stock Exchange of Thailand from 2018 to 2019, excluding companies listed on the Market for Alternative Investment (MAI), companies in the financial business group, and companies from which securities were delisted from the stock exchange, companies in the rehabilitation period, companies that the SEC required to submit the revision of the financial statements, companies with incomplete information, and companies with

2% of the highest and lowest accounting conservatism values and cost of capital. Thus, the total number of samples is 906 firm-year observations.

Research Instruments

The independent variables in this study were Basu (1997)'s accounting conservatism based on a 5-year retrospective sample of each company by using the 5-Year Rolling Regressions as shown in the following equation:

$$\frac{E_{i,t}}{P_{i,t-1}} = \beta_0 + \beta_1 DR_{i,t} + \beta_2 R_{i,t} + \beta_3 R_{i,t} * DR_{it} + \varepsilon_{i,t} \qquad \text{(Model 1)}$$

Where $E_{i,t}$ = Earnings per share of entity i in fiscal year t

$P_{i,t-1}$ = price per share of firm i at the end of the fiscal year t-1

$R_{i,t}$ = The rate of return per share of firm i at the end of the fiscal year t-1 to the end of the fiscal year t can be found from

$$R_{i,t} \quad = \quad \frac{\text{Dividend + Change in Securities Price}}{\text{Securities Price at the beginning of the Period}}$$

$DR_{i,t}$ = Dummy variable is 1, $R_{i,t} < 0$, and equals 0 if $R_{i,t} \geq 0$

If firms listed on the Stock Exchange of Thailand have applied accounting conservatism, the coefficient β_3 which is the joint effect between the rate of return and the dummy variable ($R_{it} \neq DR_t$) will be significantly positive.

The dependent variables consist of three components. The first one is the cost of equity which is used the expected rate of return of a financial asset as a proxy for the cost of equity. It is calculated from the capital asset pricing model: CAPM. However, Sharpe (1964) argued that CAPM is a more suitable measure to estimate the shareholders' required rate of return. The model is presented as follows:

$$E(R_{i,,t}) \quad = R_{f,t} + \text{Bi} (E(R_{m,t}) - R_{f,t}))$$

Where $E(R_{i,t})$ = The expected rate of return of a financial asset i

$R_{f,t}$ = Return on risk-free assets, the yield on three-month Thai Treasury bills serving as a proxy for the risk-free rate. (e.g. Gai and Vause (2006), Mukherji (2011), and Chen (2021))

B_i = Beta coefficient, calculated (Bi) by finding the covariance between the return from securities and the market to the variance of the market return (O'Hanlon & Steele, 2000).

$E(R_{m,t})$ = The average rate of return on an asset with the expected risk of exposure, known as the market return.

The second variable is the cost of debt calculated by interest expense for the year divided by average interest-bearing debt (Hashim & Amrah, 2016; Hsieh, Shiu, & Chang, 2019; Ongklang, 2016; Usman, Farooq, & Zhang, 2019) The third variable is Weighting Average Cost of Capital calculated by the model as follows:

WACC   = We*Ke + Wd*Kd *(1-T)

Where W_e = Weighted average amount of market value of capital [Shareholders' equity/(debt with interest + shareholders' equity)]

W_d = Weighted average amount of current cost of debt [Debt with interest /(debt with interest + shareholders' equity)]

K_e = Cost of equity

K_d = Cost of debt

T   = Corporate income tax rate

Research Model

This study examined the effect of accounting conservatism on the cost of capital by multiple regression models as follows:

$COE_{i,t} = \beta_0 + \beta_1 CON_{i,t} + \beta_2 LEV_{i,t} + \beta_3 TAS_{i,t} + \beta_j Industry\ dummy + \beta_k Year\ dummy + \varepsilon$ (Model 2)

$COD_{i,t} = \beta_0 + \beta_1 CON_{i,t} + \beta_2 LEV_{i,t} + \beta_3 TAS_{i,t} + \beta_j Industry\ dummy + \beta_k Year\ dummy + \varepsilon$ (Model 3)

$WAC_{i,t} = \beta_0 + \beta_1 CON_{i,t} + \beta_2 LEV_{i,t} + \beta_3 TAS_{i,t} + \beta_j Industry\ dummy + \beta_k Year\ dummy + \varepsilon$ (Model 4)

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Table 1 Variables and Measurement in Regression Equations

Independent Variables		Measurement
CON	Accounting Conservatism	The coefficient β_3 , which is computed with 5-Year Rolling Regressions according to the concept of Basu (1997) as shown in Model 1.
Control Variables		
LEV	Leverage ratio	Debt to equity ratio
TAS	Total asset	Natural logarithm of total assets
Industry Fixed Effects		
SER	Services	Coded "1" if firm i is in the industry of services and "0" otherwise.
AGR	Agro & Food Industry	Coded "1" if firm i is in the industry of Agro & Food Industry and "0" otherwise.
RES	Resources	Coded "1" if firm i is in the industry of resources and "0" otherwise.
IND	Industrials	Coded "1" if firm i is in the industry of industrials and "0" otherwise.
COP	Consumer Products	Coded "1" if firm i is in the industry of consumer products and "0" otherwise.
PRO	Property & Construction	Coded "1" if firm i is in the industry of property and construct and "0" otherwise.
TEC	Technology	Coded "1" if firm I is in the industry of technology and "0" otherwise.
Year Fixed Effects		
Y18	The year 2018	Coded "1" if firm i is in 2018 and "0" otherwise.
Y19	The year 2019	Coded "1" if firm i is in 2019, and "0" otherwise.
Dependent Variable		
COE	Cost of equity	The cost of equity is calculated with CAPM (Capital asset pricing model).
COD	Cost of debt	The annual interest expense is divided by the average interest-bearing loan.
WAC	The weighted average cost of capital	The average cost of capital for shareholders and creditors depends on the proportion of the owners and creditors' equity is WACC.

Data Collection and Analysis

Secondary data related to accounting conservatism and cost of capital from annual financial statements of the firms available on the website of the Stock Exchange of Thailand and the SET Market Analysis and Reporting Tool (SETSMART) is used in this quantitative study. Data were analyzed by using SPSS Statistics for Windows. To test whether the data were normally distributed, the collected data will be analyzed by using multiple regression.

The random errors were normally distributed based on the test of normality. The histogram was an inverted bell shape with a symmetrical appearance. Skewness did not exceed 0.75, and Kurtosis did not exceed 1.50 (Hoogland & Boomsma, 1998). Based on the normal P-P plot standardized residual errors were found near diagonal. The multicollinearity problem of the data was tested by Pearson's correlation. The correlation coefficients were very low in the range of -0.045 - 0.167 (Hinkle, William, & J., 1998). In addition, when considering the tolerance, the value was in the range of 0.4343 - 0.9825, which is not close to zero, and the variance inflation factor (VIF) was in the range of 1.0178 - 2.3028, which is less than 10. Thus, it can be concluded that all of the independent variables had no degree of correlation among them, and did not cause any multicollinearity problems (Bowerman & O'Connell, 2000).

Research Results

Descriptive Statistic

To examine the effect of accounting conservatism on the cost of capital of listed companies in Thailand, the data relevant to accounting conservatism and the cost of capital of the firms listed on the Stock Exchange of Thailand were collected. The total number of firm-year observations was 906, with 451 firm-year observations in 2018, and 455 in 2019. There were 202 firm-year observations in IT services, 100 in the

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agro & food industry, 96 in resources, 179 in industrials, 67 in consumer products, 194 in property & construction, and 68 in technology. The details of the data are presented in Table 2.

Table 2   Descriptive statistics analysis of the variables from 2018 to 2019

Variables	Minimum	Maximum	Mean	Standard Deviation
Conservatism (CON) (times)	-14.5656	15.4682	0.1397	2.5171
Cost of equity (COE) (%)	-15.9843	10.8921	-2.2547	5.0843
Cost of debt (COD) (%)	0.0024	12.3591	3.3273	1.8794
Weighted average cost of capital (WAC) (%)	-14.7654	10.4920	-0.4665	3.9861
Leverage ratio (LEV) (times)	-11.6560	20.0066	1.2797	1.7595
Total Asset (million baht)	11.6000	2,484,438.68	33,631.83	135,546.88

Table 2 shows financial information from 2018 to 2019 of the companies listed on the Stock Exchange of Thailand. Most companies applied were accounting conservatism. The average conservatism (CON) was 0.1397. Most of the firms had a low cost of equity (COE), with an average of -2.2547%, while the average cost of debt (COD) was higher at 3.3273%. As a result, the weighted average cost of capital (WAC) of most companies increased, but the average was still negative at -0.4665. As shown in the leverage ratio (LEV), debt to the asset was 1.2797 times, which was not high. It was found that Thai listed companies are large companies with high averages of total assets up to 33,631.83 million Baht.

Regression Analysis

The test of the effect of accounting conservatism on the cost of capital consists of the cost of equity, cost of debt, and the weighted average cost of equity as shown in Table 3.

Table 3   Tests of H1 – H3: The effect of accounting conservatism on the cost of capital

Variables	Cost of Equity (Model 2) B	Std. Error	Beta	t	p-values	Cost of Debt (Model 3) B	Std. Error	Beta	t	p-values	Weighted average cost of capital (Model 4) B	Std. Error	Beta	t	p-values	Tolerance	VIF
Constant	-2.3395	0.8207		-2.8506	0.0045*	4.9648	0.4037		12.299	0.0000*	-1.5511	0.6881		-2.2542	0.0244		
CON	-0.2146	0.0465	-0.1063	-4.6157	0.0000*	-0.2159	0.0229	-0.2892	-9.4401	0.0000*	-0.3058	0.0390	-0.1931	-7.8440	0.0000*	0.9472	1.0558
LEV	-0.0262	0.0668	-0.0091	-0.3918	0.6953	0.1906	0.0328	0.1784	5.8048	0.0000*	0.4014	0.0560	0.1772	7.1713	0.0000*	0.9405	1.0633
TAS	-0.4738	0.0801	-0.1465	-5.9142	0.0000*	-0.1275	0.0394	-0.1066	-3.2354	0.0013*	-0.2390	0.0672	-0.0943	-3.5582	0.0000*	0.8182	1.2222
SER	0.8048	0.3782	0.0703	2.1277	0.0336*	-1.2640	0.1860	-0.2989	-6.7948	0.0000*	-0.1663	0.3171	-0.0185	-0.5245	0.6000	0.4592	2.1775
AGR	1.1607	0.4927	0.0716	2.3556	0.0187*	-0.6706	0.2423	-0.1119	-2.7669	0.0058*	0.6972	0.4131	0.0548	1.6876	0.0918	0.5437	1.8393
RES	0.2341	0.4942	0.0142	0.4737	0.6359	-0.6402	0.2431	-0.1049	-2.6338	0.0086*	-0.0784	0.4143	-0.0061	-0.1892	0.8500	0.5603	1.7849
IND	1.2112	0.4339	0.0949	2.7915	0.0054*	-0.2913	0.2134	-0.0618	-1.3651	0.1726	0.8959	0.3638	0.0895	2.4627	0.0140*	0.4343	2.3028
COP	2.0734	0.5533	0.1068	3.7476	0.0000*	-0.5654	0.2721	-0.0788	-2.0777	0.0380*	1.2934	0.4639	0.0850	2.7882	0.0054*	0.6183	1.6173
PRO	0.4987	0.4132	0.0403	1.2071	0.2277	-0.9233	0.2032	-0.2016	-4.5434	0.0000*	0.3587	0.3464	0.0369	1.0353	0.3008	0.4512	2.2162
Y19	7.0057	0.2297	0.6893	30.4969	0.0000*	0.1246	0.1130	0.0332	1.1025	0.2705	4.7485	0.1926	0.5959	24.654	0.0000*	0.9825	1.0178
Adjusted R^2	0.5457					0.1957					0.48045						
F-value	109.71					23.018					84.6904						
p-value	0.0000*					0.0000*					0.0000*						
Durbin-Watson	1.8645					1.7784					1.98531						

Note: *denote significance at the .05 levels.

TEC and Y18 were omitted to process with the statistic criteria.

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Table 3 presents that Model 2 was accepted with F= 109.71 (p-value = 0.0000) and adjusted R^2 = 0.5457, and accounting conservatism negatively affected cost of equity (Beta = -0.1063 p-value < .05). Thus, H1 was accepted. It was also found that TAS negatively affected the cost of equity, while SER, AGR, IND, COP, and Y19 positively affected the cost of equity. Model 3 was accepted with F= 23.018 (p-value = 0.0000), and adjusted R^2 = 0.1957 and accounting conservatism negatively affected cost of equity (Beta = -0.2892 p-value < .05). Thus, H2 was accepted. In addition, TAS, SER, AGR, RES, COP, and PRO negatively affected the cost of equity, while LEV positively affected the cost of equity. Model 4 was accepted with F= 84.6904 (p-value = 0.0000) and adjusted R^2 = 0.48045 and accounting conservatism negatively affected cost of equity (Beta = -0.1931 p-value < .05). Thus, H3 was accepted. Furthermore, it was found that TAS negatively affected the cost of equity, while LEV, IND, COP, and Y19 positively affected the cost of equity.

Conclusion and Discussion

The limitation of this study was that the accounting data for the past five years differed. The researcher chose the 2018-2019 data, which was pre-Covid situation data, which was a normal situation for analysis and conclusion. The findings of this study show a negative effect of accounting conservatism on the cost of equity, a negative effect of accounting conservatism on the cost of debt, and a negative effect of accounting conservatism on the weighted average cost of capital.

The results of Hypothesis testing show that accounting conservatism negatively influenced the cost of capital measured by the cost of equity, cost of debt, and the weighted average cost of capital. Thus, Hypotheses 1, 2, and 3 were accepted. According to the principle of accounting

conservatism, the good news (profit) must be strictly audited prior to transaction recognition to reduce information asymmetry (LaFond & Watts, 2008) and cost of capital (Zare et al., 2013). Thus, investors reward companies that report timely losses with the low required rate of return (Guay & Verrecchia, 2017). The result reveals that accounting conservatism is inversely related to the cost of equity (Warad & Al-Debi'e, 2017), which is consistent with Khalifa et al. (2018), who found that conditional conservatism negatively correlated with the cost of equity after examining the effect of conditional and unconditional conservatism on the cost of equity capital from 13 the Middle East and North Africa countries (MENA) from 2004 to 2009.

The result of this study is in line with Hu and Jiang (2018), who investigated the effect of managerial risk incentives on financial reporting conservatism of companies in Standard & Poor's ExecuComp, Compustat, and CRSP from 1993 to 2014. They found that excessive risk incentives positively influenced the cost of debt, but accounting conservatism reduced such a relationship. Accounting conservatism benefits the borrower company since it assures the lenders that they will get paid back. With this assurance, they charge a low-interest rate (Hassani, Hedayati, Mohammadi, & Lesan, 2013). This study also confirms that the accounting conservatism policy signals the quality of financial reports, and reduces information asymmetry between outsiders and insiders, as well as the cost of capital. Similarly, Zare et al. (2013), examined the relevance of disclosure, accounting conservatism, and their influence on the cost of capital in Tehran from 2003 to 2009, and Warad and Al-Debi'e (2017), examined the impact of accounting conservatism and voluntary disclosure on the cost of capital in Jordan from 2009 to 2013 found that accounting conservatism negatively affected the weighted average cost of capital.

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The results of this study are beneficial to several parties, including investors and lenders by providing them with a clearer and safer approach for their investment decisions. If the investors and lenders have sufficient information prior to making an investment decision, the risk and the cost of capital are reduced. This reflects appropriate accounting practices regulated by the Federation of Accounting Professions and strengthens the stock market in the future.

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