

The impact of conditional and unconditional conservatism accounting on firm value and market reaction in companies listed on the Tehran Stock Exchange

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ABSTRACT

One of the important factors for investors' decision-making is the prediction of stock returns and firm value, that is, their expectation of the market's reaction in the future. The stock market reacts to all phenomena, one of which is accounting conservatism. This study examines the effect of conditional and unconditional conservatism on company value and market reaction. In this study, data from 135 companies listed on the Tehran Stock Exchange were collected. The panel data method was used to test the models. The Ball and Shivakumar model was used for conditional conservatism, and the Givoly and Hayn model was used for unconditional conservatism. The Tobin Q ratio was considered as the criterion for measuring company value. The results showed that none of the conservatism criteria have a significant effect on firm value and market return.

Keywords: Conditional conservatism, Unconditional conservatism, Firm value, Stock return

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INTRODUCTION

Stock price fluctuations are normal and daily in all stock exchanges. Stock prices are affected by internal and external factors, with each of these factors affecting the price of companies' shares. Changes in the price of a company's shares also affect the value of the firm in some way. The internal factors of the company that are effective include profitability, loss-making and company management, as well as the reliability of companies' financial reporting (Asadi, et.al 2015).

The study of the usefulness of financial information and statements is a widespread topic in capital market accounting research. The usefulness of financial statements can be examined by studying the relevance of their information. The value of financial statement relevance is determined based on the results of empirical studies that test the relationship between specific accounting numbers and stock market prices. The value of financial information and statements relevance is significantly affected by accounting conservatism. Accounting conservatism has a negative impact on the appropriate role of financial statements in helping investors predict the fundamental value of the company. The market value of companies is a function of the supply and demand for their shares in the stock markets, and market value fluctuations are caused by decisions that investors make based on available information regarding the purchase and sale of shares (Asadi, et.al 2015). On the other hand, one of the important factors for investors' decision-making is the prediction of the company's stock returns, that is, their expectation of the market's reaction in

the future. The stock market reacts to all phenomena, one of which is accounting conservatism (Ruhi, et.al 2017). In the theoretical foundations of financial reporting in Iran, conservatism is defined as "a cautious response to uncertainty in order to ensure that the nature of uncertainty and risk in business conditions is adequately considered." Two important characteristics of conservatism have been examined in the accounting literature. First, the bias in understating the book value of stocks relative to the market value of stocks, which is stated by Feltham and Ohlson, and represents conservatism from a balance sheet perspective. Second, the tendency to accelerate the recognition of losses and postpone the recognition of gains, which is stated by Basu, and represents conservatism from a profit and loss perspective (Karami, et.al 2021).

There are different views on the effects of conservatism on company value. From the perspective of some, conservatism can destroy firm value by distorting information and resource allocation, and on the other hand, a group believes that conservatism increases firm value by limiting management's opportunistic behaviors (Asadi, et al. 2015). Determining the value of a company and identifying the factors affecting it in capital markets has always been a challenging topic for investors and financial analysts. They have always sought to identify the factors affecting the value of a firm, so that by controlling these factors they can determine the value of the company in reality. As a result, the market value of the company approaches its intrinsic value, so estimating the future value of companies has always been one of the concerns of investors (Ruhi, et.al 2017). One of the factors that affects the value of a firm and the market reaction is accounting conservatism, and given

the above-mentioned conflicting views on the effect of conservatism on firm value, it is necessary to conduct research in this area. Therefore, this study examines the effect of conditional and unconditional conservatism in the Iranian capital market as a developing market.

Theoretical foundations and literature review

Conservatism

The Technical Committee of the Audit Organization of Iran (2007) states that preparers of financial statements deal with uncertainties that inevitably overshadow many events and conditions with caution. Examples of these uncertainties include the collectability of receivables, the probable useful lives of fixed assets, and the number and amount of warranty claims on goods sold. Such matters are dealt with with caution in the financial statements, with disclosure of their nature and amount. "Prudence is the application of a degree of care that is required in exercising judgment for accounting estimates in circumstances of uncertainty, so that revenues or assets are not overstated and expenses or liabilities are not understated." In fact, conservatism can be considered a product of uncertainty. Whenever accountants are faced with uncertainty, they apply conservatism. In the opinion of this committee, the exercise of prudence should not lead to the creation of hidden reserves or unnecessary reserves or to intentionally understate assets and income and intentionally overstate liabilities and expenses, as this would violate objectivity. From the perspective of financial statement preparers, conservatism is an attempt to select a method from among the accepted accounting methods (Karami, et.al 2021).

According to Heisenberg's uncertainty theory, there is uncertainty and ambiguity in the nature of events, and accounting is no exception to this rule. Accounting is always faced with uncertainty in the process of recognition, measurement, and reporting. Conservatism in accounting is one of the limiting conventions. In the accounting literature, conservatism is divided into two types: conditional and unconditional (Ghaemi, et.al 2014). This division stems from the claim that the ratio of market value to book value is never equal to one, and the difference between book value and market value is divided into two parts, one of which is permanent and the other is temporary. The part that is permanent is related to the application of conservative procedures in recognizing items in financial statements, in which case the book value is always less than the market value. The temporary part is also due to the conservative approach in the periods after the initial recognition of assets and liabilities. In the aforementioned periods, as new information becomes available, the impairment loss is recognized quickly, but the increase in value is not reflected. Thus, until reliable evidence of an increase in the value of net assets is provided, the book value of net assets is less than its market value. The temporary parts were called delays and the permanent part was called accounting bias. However, in 2005, the two terms conditional conservatism (pre-event conservatism or news-independent conservatism) and unconditional conservatism (post-event conservatism or news-dependent conservatism) replaced the previous terms. Feltham and Ohlson's (1995) view is in line with conditional conservatism because, according to their view, in cases where there is real doubt in choosing

between two or more reporting methods, the method that has the least desirable effect on shareholders' equity should be chosen. Basu's (1997) view is also in line with unconditional conservatism because, according to their view, conservatism requires a higher degree of confirmation for recognizing good news such as profit, compared to recognizing bad news such as loss (Etemadi, et.al 2017).

There are three important reasons for distinguishing between conditional and unconditional conservatism:

First, the two types of conservatism have different effects on the financial statements. The use of unconditional conservatism has a relatively consistent effect on the income statement from period to period. In contrast, the effect of conditional conservatism on the income statement is unstable because it depends on the fluctuations in the content and timing of economic news during the period. On the balance sheet, both types of conservatism reduce the value of net assets.

Second, because unconditional conservatism creates an accounting lag, it prevents the occurrence of conditional conservatism. Unconditional underestimation of assets reduces the recognized value under the influence of bad news in the future, thus reducing the asymmetric timing of earnings; therefore, it may be concluded that unconditional conservatism may prevent the occurrence of conditional conservatism.

Third, the conditions that cause conditional conservatism to occur are different from unconditional conservatism. Some studies have examined the conditions for the emergence of conditional and unconditional conservatism in each of the four justifications of contracts, taxes, laws and regulations, and litigation costs, and have shown that conditional conservatism is created in an environment where litigation and contract costs are high, and unconditional conservatism is used in an environment where tax, litigation, and regulatory costs are high (Karami, et.al 2021).

There are different views on the role of accounting. From one perspective, the main role of accounting is to obtain information to assess the market value of equity and investment decisions (valuation perspective). From another perspective, the main role of accounting is to provide information to the parties to the contract to assess the efficiency and effectiveness of the obligations implemented in the contract environment, such as debt and management compensation (contract evaluation perspective). The assessment of the cost and benefit of accounting conservatism depends on the individual's perspective on accounting information. Useful information provided from a valuation perspective may be of little value from a contract evaluation perspective, and vice versa. Debt contracts are concluded with the aim of ensuring that the distribution of resources will always be made after retaining resources to restore the rights of other stakeholder groups (here, creditors). The application of accounting conservatism from the perspective of creditors of a business entity means the proportionate and correct distribution of profits and net assets among stakeholders (Karami, et.al 2021).

Conservatism and market reaction

Given that one of the basic criteria for decision-making in the stock market is stock returns, stock returns alone have information content and most actual and potential investors

use it in financial analysis and forecasts. Also, the goal of investors is to invest, earn profits, and ultimately maximize wealth. To achieve this, investors invest in assets that have high returns and relatively low risk.

If the rate of return of an investment is higher than the desired rate of return, the value of that asset is higher and the investor's wealth increases. Researchers take different approaches to evaluating this information content. One of these approaches is to examine the economic consequences of conservatism on stock value, which is done using stock return patterns and can help understand the benefits and costs of conservatism (Etemadi, et.al 2017).

Given the role that accounting conservatism plays in increasing borrowing capacity and limiting managerial opportunism, it is expected to have a positive effect on company stock returns. Borrowing usually constitutes a major part of companies' capital, and the payment of loans and credits to companies requires a careful assessment of the borrower's financial condition, and for this assessment, the existence of verifiable accounting figures is essential. As a result, companies that adopt more conservative financial reporting have the possibility of receiving more financial facilities, which enables companies to invest in projects with positive net present value (NPV). Considering the return obtained from these projects, it ultimately leads to an increase in company returns. Also, considering the role that conservatism plays by applying a stricter verification threshold for profit versus loss, it leads to limiting management's opportunistic behavior in overstating assets and company performance. As a result, this role of conservatism leads to an increase in company value and an increase in shareholders' equity, which has a positive effect on the stock market reaction (Watts, et.al 2011).

Conservatism and firm value

With the emergence of the issue of separation of ownership from management and the creation of a conflict of interest between owners and managers, evaluating the performance of companies and their managers and leaders is a topic of interest to various groups of creditors, owners, the government, and even managers. Creating value and increasing shareholder wealth in the long term is one of the most important goals of companies, and increasing wealth will only be achieved as a result of desirable performance. Measuring performance in the decision-making process is one of the most important issues in the financial and economic fields, given the development and importance of the role of the capital market. Therefore, the function of financial and economic criteria is a necessity for evaluating the performance of enterprises. Evaluating the performance of economic enterprises also requires recognizing criteria and indicators. One of the criteria that affects the performance of the company is accounting conservatism (Ruhi, et.al 2017).

There are different opinions about the impact of conservatism on firm value. According to research, conservatism increases firm value by limiting opportunistic behaviors of managers. On the other hand, opponents of conservatism argue that it can potentially distort information and resource allocation, which can destroy firm value (Asadi, et.al 2015). Some research has also shown

that companies that apply conservative accounting have less earnings sustainability, which leads to lower company valuation by the market (Cui, et.al 2021). Also, according to empirical research, conservative financial reporting makes managers less willing to invest in projects with negative net present value. Conservatism prevents opportunistic behavior of managers (for managing firm earnings) and reduces moral hazard. Therefore, conservatism can increase the value of the company and shareholders' equity by improving the efficiency of corporate investments (Asadi, et.al 2015). Given the mixed opinions and results in this field, it is necessary to conduct research in this area, and one of the goals of this research is to examine the effect of conservatism on firm value.

Previous research

There has been a lot of research in the field of conservatism, which has been examined in six groups in this study, according to the topic. The studies classified in the first group examined the effect of conservatism on company performance in financial crisis conditions or normal conditions. Watts et al. (2011) examined the effects of accounting conservatism on firm value during the 2008 global financial crisis. Overall, their evidence showed that accounting conservatism leads to a decrease in inadequate investment by improving borrowing capacity and leads to an increase in firm value by limiting managerial opportunism. Cui et al. (2021) examined the effect of conditional conservatism during the COVID-19 outbreak on stock returns in Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges. The evidence obtained showed that conditional conservatism leads to a smaller decrease in stock return performance during the COVID-19 outbreak. Etemadi et al. (2017) tested the relationship between conservatism and stock value performance during financial crisis conditions on the Tehran Stock Exchange. The results of the study showed that in companies without financial crisis, there is a negative and significant relationship between conservatism and stock returns and abnormal stock returns, while in companies with financial crisis, there is a positive and significant relationship between conservatism and stock returns and abnormal stock returns. Asadi et al. (2015) examined the effect of conditional and unconditional conservatism in companies listed on the Tehran Stock Exchange. Empirical evidence showed that conditional and unconditional conservatism have a direct and significant relationship with firm value.

The articles that were placed in the second category tested the effect of conservatism on the relationship between accounting variables and firm performance. Xia et al. (2019) analyzed the effect of accounting conservatism on the relationships between stock returns and accounting variables. Their evidence showed that conservatism has a positive effect on the relationships between stock returns and accounting variables and leads to improved explanatory power of coefficient estimates related to earnings levels and earnings changes. Wu et al. (2025) studied the effect of accounting conservatism on corporate diversification and firm value. They first examined the effect of diversification on firm value. The results showed an adverse effect of diversification on firm value. They further showed that accounting conservatism has a negative effect on the degree

of diversification of firms. Therefore, conservatism reduces the negative effect of diversification on firm value. Kim et al. (2023) studied how accounting conservatism affects the relationship between current stock returns, current earnings, and future earnings. Their evidence showed that conditional conservatism has a positive effect on the information content of current stock returns about future earnings, but unconditional conservatism has no effect on this relationship.

The third group considered conservatism as an indicator of earnings quality and tested its effect on investment in operating assets. Sadidi et al. (2011) considered conservatism as an indicator of earnings quality. Their results showed that some of the differences between return on operating assets and current stock returns from this year to next year can be explained by the conservatism index. So, the use of conservative practices cause earnings quality to be affected by changes in investment in operating assets. The fourth group of studies examined the effect of conservatism on investment efficiency and the amount of company financing. Lara et al. (2016) examined the effect of conservatism on investment efficiency. Their results confirmed that more conservative companies in environments prone to insufficient investment invest more and are able to finance more through debt, and the greater the information asymmetry, the more pronounced these effects are. Forughi et al. (2009) examined the relationship between conservatism and investment efficiency. The results of the research hypothesis test showed that there is a significant and positive relationship between investment efficiency and conservatism.

The articles that were included in the fifth group examined the effects of conservatism on the capital market. Kim et al. (2016) examined the effects of conservatism on the capital market. In their opinion, given that conditional conservatism limits the opportunistic behavior of managers, it reduces the risk of stock price collapse. Talawa et al. (2024) examined the effect of accounting conservatism and corporate governance on the stock price gap. Higher levels of corporate governance have a negative effect on future stock price increases, but conservative accounting policies prevent stock price collapses. Waqas et al. (2021) examined the effect of accounting conservatism on the risk of stock price collapse in Pakistan. Their study showed that accounting conservatism reduces the risk of stock price collapse. On the other hand, the moderating variable of managerial ownership has a positive effect on the risk of stock price collapse of sample companies. Safarzadeh et al. (2015) investigated the effect of accounting conservatism on the market's assessment of non-continuous earnings and losses in the Tehran Stock Exchange. The findings indicated that the earnings reaction coefficient of negative non-continuous items was higher compared to positive non-continuous items. Furthermore, as the level of conservatism increased, the aforementioned asymmetry became larger, indicating that the information content of non-continuous losses was greater than that of non-continuous earnings due to the increase in the level of conservatism.

Research in the sixth category examined the impact of the business environment on conservatism. Hejranijamil et al. (2020) examined the impact of conservatism on the

business environment. Their evidence showed that uncertainty in the business environment has a positive effect on conservative reporting.

Research hypotheses

According to research, conservatism increases the value of the company by limiting the opportunistic behavior of managers. On the other hand, opponents of conservatism argue that it can potentially distort information and resource allocation, destroying the value of the company (Asadi, et.al 2015). Therefore, the main research question is as follows:

Does conditional and unconditional conservatism accounting affect the value of the company and the market reaction?

Based on the research question, the research hypotheses are stated as follows:

- 1- There is a direct and significant relationship between conditional conservatism and the value of the company.
- 2- There is a direct and significant relationship between unconditional conservatism and the value of the company.
- 3- There is a direct and significant relationship between conditional conservatism and stock returns.
- 4- There is a direct and significant relationship between unconditional conservatism and stock returns.

Methodology

Population, statistical sample and research period

The statistical population of the study is all companies listed on the Tehran Stock Exchange, except for companies in the financial sector. The sample companies were selected based on the following conditions:

- 1- They have not changed their fiscal year during the period under review.
- 2- They are active in the stock exchange and securities during the research period
- 3- The company's fiscal year ends on March 20th. Because in Iran, the end of the fiscal year of most companies is March 20th.

Considering the above conditions, the companies that formed the statistical sample of the study include 135 companies. The estimation of the research models and variables has been done using data from 2007 to 2015.

Research model and research variables

To measure conditional conservatism in this study, the Ball and Shivakumar model was used as follows:

$$ACC_t = b_0 + b_1 DCFO_t + b_2 CFO_t + b_3 DCFO_t * CFO_t + V_t \quad (1)$$

In this model, ACC represents accruals, which are calculated based on the difference between net income and operating cash flow plus depreciation expense. CFO is operating cash flow and DCFO is a dummy variable, which is equal to one if operating cash flow is negative and zero otherwise. Given that losses are more likely to occur in periods with negative cash flows, the b_3 coefficient is expected to be positive for conservatism, and the higher it is, the greater the level of conservatism, so the b_3 coefficient represents conditional conservatism (Doustian, 2019).

$$Cons1 = b_3 \quad (2)$$

To calculate unconditional conservatism, the Givoly and Hayn model was used as follows:

$$Cons2 = - Acc / Asset \quad (3)$$

In this regard, Acc is the total accruals and Asset is the asset at the beginning of the period. The above formula is

multiplied by a negative number to establish a direct relationship with conservatism. The higher the value obtained from the formula, the greater the conservatism (Doustian, 2019).

To calculate the value of the company based on research conducted (Doustian, et.al 2024), Tobin's Q ratio has been used, which is calculated as follows:

$$\text{Tobin's Q} = (\text{MV} + \text{Debt}) / \text{Asset} \quad (4)$$

In this relation, MV is the market value of the firm, Debt is the company's debts, and Asset is the company's assets.

The following model has been used to test hypotheses (1) and (2):

$$\text{Tobin's Q}_{it} = \beta_1 + \beta_2 \text{consit}_{it} + \beta_3 \text{Size}_{it} + \beta_4 \text{Growth}_{it} + \beta_5 \text{ROA}_{it} + \beta_6 \text{Loss}_{it} + \text{eit}_{it} \quad (5)$$

In this relation, cons is the conditional conservatism measured using the Ball and Shivakumar model and the unconditional one measured using the Givoly and Hayn model. Size is the size of the company measured using the natural logarithm of the company's assets. Growth is the company's sales growth, ROA is the rate of return on assets, Loss is equal to one if the company is loss-making and zero otherwise.

To test hypotheses (3) and (4), the following model was used:

$$\text{RET}_{it} = \beta_1 + \beta_2 \text{consit}_{it} + \beta_3 \text{Size}_{it} + \beta_4 \text{Growth}_{it} + \beta_5 \text{ROA}_{it} + \beta_6 \text{Loss}_{it} + \text{eit}_{it} \quad (6)$$

In this model, RET represents stock returns and the rest of the variables are as described in model (5) (Ruhi, et.al 2017).

Models (5) and (6) are estimated using panel data. F-limer and Hausman tests were used to identify the type of regression model. The models were estimated using Eviews software. The White test was used to examine variance heterogeneity.

Results

Descriptive statistics

Descriptive statistics of the research variables are presented in Table (1), which includes median, mean, maximum, minimum, standard deviation, and coefficient of variation.

Table 1: Descriptive statistics

	SIZ E	CO NS1	GR OW TH	LOS S	CO NS2	TO BIN SQ	RO A	RET
Mean	27.75307	0.113756	0.26066	0.07831	0.04046	1.628732	0.128837	1.019584
Median	27.68415	0.00000	0.25200	0.00000	0.03777	1.461428	0.17217	0.721517
Maximum	31.61813	2.845	2.170	1.000	0.319	4.521513	0.578	6.14667
Minimum	24.97703	8.650	0.480	0.000	0.424	0.729	0.178	0.568

	1.2	1.0	0.3	0.2	0.1	0.6	0.1	1.2
Std.	186	447	393	692	434	327	222	946
Dev.	93	78	01	27	94	86	23	45
Coefficient of variation	0.04	-	-	-	-	-	-	-
	4	9.18	1.3	3.43	3.55	0.39	0.95	1.27

According to Table (1), the coefficient of variation of the dependent variables of the study, namely the value of the firm (Tobins'Q) and the market reaction (RET), are significantly different from each other. The coefficient of variation and dispersion of the value of the firm (0.39) is less than the coefficient of variation of the market reaction (1.27) for the sample companies, which indicates that the sample companies did not differ much in terms of market value during the period under study, but the market had significantly different reactions to the sample companies during the period under study. The unconditional conservatism criterion (CONS2) has a lower coefficient of variation and dispersion among the conservatism criteria, so it can be said that the unconditional conservatism criterion is more stable than conditional conservatism and is more reliable for examining the conservatism of companies. Among the control variables of the study, the company size variable has the lowest amount of variability, which indicates that the sample companies did not differ much in terms of size. The highest variability is related to the loss variable. Also, the results obtained from the average of the research variables show that the average profitability of the research companies based on ROA was 12.8 percent and the average growth of the research companies was 26 percent.

Table 2: correlation between research variables

	SIZ E	CO NS1	GRO WTH	LOS S	CON S2	TOB INS Q	ROA	R E T
SIZ E	1.000000							
CO NS1	0.118782**	1.000000						
GR OW TH	0.103932**	0.103824*	1.000000					
LO SS	-0.056483	0.122647**	-0.168746***	1.000000				
CO NS2	0.095240*	0.090445*	-0.233180***	0.313559**	1.000000			
TO BIN SQ	-0.060066	-0.004706	0.077397	-0.098264*	-0.199570***	1.000000		

ROA	0.190406***	-0.009863	0.247667***	-0.466146**	-0.413925***	0.517911***	1.000000	1
RET	0.027449	0.089345*	0.356810***	-0.059961	-0.067957	0.089542*	0.137860***	0

R-squared	0.43779
Adjusted R-squared	0.42689
F-statistic	40.1595
Prob(F-statistic)	0.00000

*** Correlation is significant at the 1% level, ** Correlation is significant at the 5% level, and * Correlation is significant at the 10% level.

The results of the correlation between the research variables are presented in Table (2). According to the table, there is a positive and significant correlation between conditional and unconditional conservatism. There is also a positive and significant correlation between conditional conservatism and the variables of company size, company growth, company loss and return, which indicates that companies with larger size and greater growth apply more conditional conservatism and with increasing conditional conservatism, the company's return increases. Also, unconditional conservatism has a negative and significant correlation with the variables of company size, company growth, firm value and company profitability. Therefore, in the case of larger companies with higher growth, the level of unconditional conservatism is lower, and on the other hand, applying unconditional conservatism leads to a decrease in firm value and company profitability.

Model estimation and hypothesis testing

The results of the first hypothesis test are presented in Table (3). The Limier F test was used to determine the type of model in terms of pooled or panel. Since the test statistic had a significance level of less than 5 percent, the null hypothesis was rejected, and therefore the model under study was placed in the panel category. Then, the Hausman test was used to examine the fixed effects model versus the random effects model. The significance level of the test statistic was less than 5 percent, so the null hypothesis was rejected, and the fixed effects model was accepted.

Table 3: Results of the first hypothesis test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.353155	0.744669	5.845762	0.0000
CONS1	0.013760	0.016734	0.822242	0.4115
SIZE	0.112806	0.026267	4.294538	0.0000
LOSS	0.344130	0.095669	3.597100	0.0004
GROWTH	0.068318	0.084229	0.811100	0.4178
ROA	3.11902	0.23783	13.1142	0.0000

As the results of Table (3) show, the conditional conservatism coefficient is positive but not statistically significant, so the first hypothesis of the study, which states that there is a direct and significant relationship between conditional conservatism and firm value, is rejected. Therefore, increasing the level of conditional conservatism in companies listed on the Tehran Stock Exchange does not affect the firm value. In other words, the level of conditional conservatism does not affect the increase in demand for purchasing company shares. The variable rate of return on assets has a positive and significant relationship with firm value, so the firm value increases with the increase in the level of return on assets. Also, according to the results presented, the variable company size has a negative and significant relationship with firm value. The adjusted determination coefficient shows that 43 percent of the changes in the dependent variable are explained by the independent variables of the model. On the other hand, the significance of the F statistic shows that the model is statistically significant.

The results of the second hypothesis test are presented in Table (4). The Limier F test was used to determine the type of model in terms of pooled or panel. Since the test statistic had a significance level of less than 5 percent, the null hypothesis was rejected, and therefore the model under study was placed in the panel category. Then, the Hausman test was used to examine the fixed effects model versus the random effects model. The significance level of the test statistic was less than 5 percent, so the null hypothesis was rejected, and the fixed effects model was accepted.

Table 4: Results of the second hypothesis test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.287257	0.716475	5.983820	0.0000
CONS2	0.175065	0.194087	0.901993	0.3677
SIZE	0.111375	0.025304	4.401559	0.0000
LOSS	0.362266	0.094991	3.813711	0.0002
GROWTH	0.04294	0.087914	-	0.6255

	8		2	
	3.31672	0.23506	14.1095	
ROA	6	9	7	0.0000
R-squared	0.44550			
Adjusted R-squared	0.43481			
F-statistic	41.6648			
Prob(F-statistic)	0.00000			
	0			

As the results of Table (4) show, the coefficient of unconditional conservatism is positive but not statistically significant, so the second hypothesis of the study, which states that there is a direct and significant relationship between unconditional conservatism and company value, is rejected. Therefore, increasing the level of unconditional conservatism in companies listed on the Tehran Stock Exchange does not affect the value of the company. In other words, applying unconditional conservatism does not affect the level of increasing the demand for purchasing company shares. The variable of return on assets has a positive and significant relationship with company value, so with increasing the level of return on assets, the company value increases. Also, according to the results presented, the variable of company size has a negative and significant relationship with company value. The adjusted coefficient of determination shows that 43 percent of the changes in the dependent variable are explained by the independent variables of the model. On the other hand, the significance of the F statistic shows that the model is statistically significant.

The results of the third hypothesis test are presented in Table (5). The Limier F test was used to determine the type of model in terms of whether it was pooled or panel. Since the test statistic had a significance level of less than 5 percent, the null hypothesis was rejected, and therefore the model under study was placed in the panel category. Then, the Hausman test was used to examine the fixed effects model versus the random effects model. The significance level of the test statistic was less than 5 percent, so the null hypothesis was rejected, and the fixed effects model was accepted.

Table 5: Results of the third hypothesis test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.56685	1.32276	0.42853	0.6685
CONS1	0.04019	0.04294	0.93599	0.3499
SIZE	0.00698	0.04801	0.14549	0.8844

	6	2	9	
	-		-	
LOSS	0.03515	0.31113	0.11300	0.9101
GROWTH	0.89726	0.21203	4.23177	0.0000
ROA	0.44368	0.50174	0.88428	0.3771
	0	0	3	
R-squared	0.37917			
Adjusted R-squared	0.36706			
F-statistic	31.3226			
Prob(F-statistic)	0.00000			
	0			

The results of Table (5) show that the conditional conservatism coefficient is positive but not statistically significant. Therefore, the third hypothesis of the study, which states that there is a direct and significant relationship between conditional conservatism and stock returns, is rejected according to the results. In other words, conditional conservatism does not affect the stock market reaction of the company. Among the control variables, only the company's growth variable has a positive and significant relationship with stock returns. Therefore, companies that have higher growth have a greater market reaction to them. The adjusted coefficient of determination shows that 36 percent of the changes in the dependent variable are explained by the independent variables of the model. On the other hand, the significance of the F statistic shows that the model is statistically significant.

The results of the fourth hypothesis test are presented in Table (6). The Limier F test was used to determine the type of model in terms of whether it was pooled or panel. Since the test statistic had a significance level of less than 5 percent, the null hypothesis was rejected, and therefore the model under study was placed in the panel category. Then, the Hausman test was used to examine the fixed effects model versus the random effects model. The significance level of the test statistic was less than 5 percent, so the null hypothesis was rejected, and the fixed effects model was accepted.

Table 6: Results of the fourth hypothesis test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.44379	1.32026	0.33613	0.7370
CONS2	0.48266	0.40947	1.17874	0.2393
SIZE	0.01079	0.04791	0.22535	0.8218
	7	0	9	

	-	-		
	0.11636	0.30349	0.38340	
LOSS	0	1	5	0.7016
	0.92361	0.20868	4.42580	
GROWTH	1	8	3	0.0000
	0.60139	0.48717	1.23443	
ROA	0	8	6	0.2178
	0.37600			
R-squared	0			
Adjusted R-squared	0.36390			
	1			
	31.0751			
F-statistic	5			
	0.00000			
Prob(F-statistic)	0			

The results of Table (6) show that the coefficient of unconditional conservatism is positive but not statistically significant. Therefore, the fourth hypothesis of the study, which states that there is a direct and significant relationship between unconditional conservatism and stock returns, is rejected according to the results. In other words, unconditional conservatism does not affect the reaction of the company's stock market. Among the control variables, only the company's growth variable has a positive and significant relationship with stock returns. Therefore, the market reaction to companies that have more growth is greater. The adjusted coefficient of determination shows that 36 percent of the changes in the dependent variable are explained by the independent variables of the model. On the other hand, the significance of the F statistic shows that the model is statistically significant.

Summary and Conclusion

In this study, the effect of conditional and unconditional conservatism on firm value and market reaction was examined. The Ball and Shivakumar model was used to measure conditional conservatism, and the Givoly and Hayn model was used to calculate unconditional conservatism. Also, the firm value was calculated based on Tobin's Q ratio, and the market reaction was measured in terms of stock returns. The results of the hypothesis test showed that conditional and unconditional conservatism do not affect firm value and stock returns. In general, the level of conservatism has no effect on the market reaction to the increase in demand for company shares. The results obtained do not correspond to the results of Asadi et al. (2015) and Ruhi et al. (2017) in this regard, and the reasons for this can be attributed to the difference in the model used for conservatism, the research period, and the research sample. In models related to firm value, the variable rate of return on assets has a positive and significant relationship with firm value, so increasing the level of return on assets increases the firm value. Also, according to the results presented, the variable company size had a negative and significant relationship with firm value. In models related to corporate returns, among the control variables, only the

corporate growth variable has a positive and significant relationship with stock returns. Therefore, companies with higher growth are more likely to be subject to market reaction.

Suggestions

According to the results obtained from this research, it is recommended:

In order to increase the reliability of the results, other conservatism models should be used in future research and the results should be compared.

Also, in future research, considering that there are many criteria for firm value, such as price-to-earnings ratio and price-to-book value ratio, it is recommended to use other criteria for firm value and compare the results with other research.

Conflicts of Interest : The author declare no conflicts of interest.

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