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Assessing the Relationship between Accounting Conservatism and Bankruptcy Risk

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Abstract: *This paper investigates the relationship between accounting conservatism (both conditional and unconditional) and bankruptcy risk in companies listed on the Tehran Stock Exchange over the period from 2015 to 2022. Using a sample of 86 companies selected through purposive sampling, the study employs panel data analysis and ordinary least squares (OLS) regression to test the hypotheses. The results reveal that both conditional and unconditional conservatism have significant negative impacts on bankruptcy risk, implying that firms practicing conservative accounting are less likely to face financial distress. Additional variables such as firm size, return on assets, and liquidity also show significant negative relationships with bankruptcy risk, while leverage has a positive and significant effect. These findings suggest that larger, more profitable, and more liquid companies are less prone to bankruptcy, whereas those with higher debt levels are at greater risk. The research provides valuable insights for financial managers, auditors, and policymakers, emphasizing the importance of adopting conservative accounting practices and maintaining a balanced capital structure to mitigate bankruptcy risk. The study contributes to the existing literature on financial stability and accounting conservatism, particularly within the context of emerging markets such as Iran.*

Keywords: *Accounting Conservatism, Bankruptcy Risk, Tehran Stock Exchange, Panel Data.*

I. Introduction

Accounting conservatism, as a fundamental principle in financial reporting, has gained increasing attention in recent years, especially in relation to its effects on corporate bankruptcy risk. Conservatism, which dictates that companies should recognize potential losses as soon as they are foreseeable while deferring the recognition of gains until they are realized, is often seen as a tool that promotes prudent decision-making within firms. However, how this principle

affects the likelihood of bankruptcy remains an area that requires further exploration, particularly within the context of companies listed on the Tehran Stock Exchange (TSE). While conservative accounting practices are generally believed to reduce the risks of overvaluation and financial distress, the extent to which these practices influence bankruptcy risk in emerging markets, such as Iran, has yet to be thoroughly investigated. One of the core motivations for this research arises from the unique financial landscape in Iran, where companies face heightened economic uncertainty, inflationary pressures, and market volatility. These factors make it crucial for firms to adopt practices that ensure financial stability and resilience. Yet, despite the theoretical benefits of conservatism, there remains a lack of empirical evidence on whether conservative accounting practices genuinely mitigate bankruptcy risk in such an environment. This research aims to address this gap by assessing the relationship between conditional and unconditional conservatism and the likelihood of bankruptcy for companies listed on the TSE between 2015 and 2022. The relationship between accounting conservatism and bankruptcy risk is multifaceted and involves understanding how different types of conservatism, conditional and unconditional, influence financial outcomes. Conditional conservatism refers to the recognition of losses more quickly than gains, providing a protective mechanism that may help firms adjust to adverse conditions before they reach a state of financial distress. Unconditional conservatism, on the other hand, reflects a consistent undervaluation of assets and earnings, which may also reduce the risk of financial instability but can limit a firm's access to capital and growth opportunities. Both forms of conservatism may affect a company's risk of bankruptcy, but the mechanisms and magnitude of these effects are not well understood, especially in emerging markets.

This study addresses the following research question: How does accounting conservatism, both conditional and unconditional, impact the bankruptcy risk of companies listed on the Tehran Stock Exchange? By exploring this question, the research will contribute to the understanding of the role that conservative accounting practices play in managing financial distress, particularly in markets with high volatility and uncertainty like Iran. The importance of studying the impact of accounting conservatism on bankruptcy risk stems from the growing need for financial stability in emerging economies. In the context of Iran, where companies often operate under unpredictable economic conditions, understanding the tools that can mitigate bankruptcy risk is crucial. For corporate managers, adopting conservative accounting principles might be a way to safeguard against sudden financial crises, ensuring the long-term viability of their firms. For investors, the use of conservatism in financial reporting

could serve as an indicator of sound financial management and lower investment risk. However, without empirical evidence to support these assumptions, decision-makers may be implementing conservative policies without fully understanding their impact. Moreover, with the increasing complexity of global financial markets and the adoption of international accounting standards, the issue of accounting conservatism has gained global relevance. Companies that operate in multiple countries or engage with international investors need to understand how their financial reporting practices, particularly conservatism, influence perceptions of risk and the likelihood of financial distress. The results of this study could thus have implications not only for companies listed on the TSE but also for firms operating in other emerging markets with similar economic conditions.

The significance of this research lies in its potential to provide actionable insights into how companies can reduce their bankruptcy risk through conservative financial reporting. While previous studies have explored the relationship between accounting conservatism and corporate risk, few have focused on emerging markets like Iran, where the financial environment presents unique challenges. This study is innovative in that it examines both conditional and unconditional conservatism, providing a more nuanced understanding of how different forms of conservatism affect bankruptcy risk. By using data from 86 companies over a seven-year period (2015-2022), this research offers a comprehensive analysis that could inform accounting practices and financial decision-making in high-risk environments. Furthermore, the study's findings could be significant for policymakers and regulators. By demonstrating how conservative accounting practices influence bankruptcy risk, the research could support the development of regulations that encourage or mandate the use of conservatism in financial reporting, thereby promoting financial stability at a broader level. The hypotheses for this study are developed based on the assumption that both conditional and unconditional conservatism can have significant effects on bankruptcy risk. The study proposes the following hypotheses:

1. Conditional accounting conservatism has a negative and significant effect on the bankruptcy risk of companies listed on the Tehran Stock Exchange.
2. Unconditional accounting conservatism has a negative and significant effect on the bankruptcy risk of companies listed on the Tehran Stock Exchange.

The primary scientific objectives of this research are directly linked to the hypotheses and seek to examine the relationship between accounting conservatism and bankruptcy risk. The specific objectives are as follows:

1. To assess the impact of conditional accounting conservatism on the bankruptcy risk of companies listed on the TSE.
2. To evaluate the effect of unconditional accounting conservatism on the bankruptcy risk of companies listed on the TSE.
3. To compare the relative effects of conditional and unconditional conservatism on bankruptcy risk to determine which form of conservatism has a stronger influence on financial stability.
4. To analyze the moderating effects of firm size, leverage, liquidity, and return on assets (ROA) on the relationship between accounting conservatism and bankruptcy risk.

This research focuses on companies listed on the Tehran Stock Exchange during the period from 2015 to 2022. The sample consists of 86 companies selected through purposive sampling. The subject scope of the research is the examination of the relationship between accounting conservatism (both conditional and unconditional) and bankruptcy risk, using regression models to analyze financial data. The temporal scope covers an eight-year period, allowing for a detailed analysis of trends over time. The spatial scope is limited to Iran, with a particular focus on the Tehran Stock Exchange, which represents a significant portion of the country's corporate sector. The findings of this research will be highly relevant to a range of stakeholders. For corporate managers, understanding the role of accounting conservatism in reducing bankruptcy risk could inform financial reporting and decision-making processes, leading to more prudent risk management strategies. Educational institutions that focus on accounting and financial management could incorporate the study’s findings into their curricula, offering students a more in-depth understanding of the practical applications of conservatism in financial reporting. For policymakers and regulators, the research could provide empirical evidence that supports the development of accounting standards and regulations that encourage the adoption of conservative accounting practices, thereby reducing systemic financial risk across industries. Investors and financial analysts would also benefit from the insights gained through this research, as conservative financial reporting could serve as a signal of lower bankruptcy risk, guiding more informed investment decisions. Lastly, auditors and accountants could use the findings to enhance their practices, ensuring that companies are following conservative principles to mitigate financial risks, particularly in volatile markets like Iran. The broader application of the findings extends to executive bodies, as the research could inform policy decisions aimed at improving corporate governance and financial transparency in emerging economies.

II. Literature review

Accounting conservatism is a fundamental concept in financial reporting, characterized by the principle that potential losses should be recognized promptly when there is uncertainty, while gains should only be recognized when they are realized. This concept is critical in reducing information asymmetry between managers and investors, ensuring that financial statements present a more reliable view of a company's financial health. By deferring the recognition of profits while expediting the recognition of losses, conservatism creates a safety net that may prevent the overstatement of a company's value, thus protecting investors from unexpected declines in firm performance. It is important to understand the distinction between conditional conservatism and unconditional conservatism, as both types have varying implications for financial decision-making.

Conditional conservatism is event-driven and applies when there is news or information that indicates potential losses or declines in asset values. In such cases, accounting standards require firms to reflect these losses in their financial statements, even if the actual cash flow impact has not yet occurred. This approach aims to ensure that firms do not inflate their asset values, thereby misleading investors. Basu's model (1997), which is widely used to measure conditional conservatism, captures the asymmetric timeliness of earnings by demonstrating how negative news is incorporated into earnings more quickly than positive news. Conditional conservatism can help prevent firms from reporting inflated profits, which may later result in financial distress when market conditions change. Unconditional conservatism, on the other hand, is more structural and reflects the systematic understatement of assets and earnings, regardless of specific events or information. This type of conservatism occurs through the adoption of conservative accounting practices that consistently understate a company’s financial position, such as accelerated depreciation or immediate expensing of certain costs. Unlike conditional conservatism, which responds to events, unconditional conservatism is baked into the accounting system and can persist over time. While unconditional conservatism reduces the likelihood of overstatement, it can also limit a firm's ability to present an accurate picture of its financial performance, which might affect its access to financing or its growth prospects.

The bankruptcy risk of a company refers to the likelihood that a company will be unable to meet its financial obligations, leading to insolvency. This risk is influenced by various factors, including a firm's financial structure, liquidity, profitability, and external market conditions. Firms with high levels of debt, poor liquidity, or declining profitability are at greater

risk of bankruptcy, as they may lack the resources to weather financial downturns. In the context of this research, accounting conservatism, by providing more timely recognition of losses, could help reduce bankruptcy risk by enabling firms to take corrective action before financial distress becomes unmanageable. However, the degree to which conservatism, both conditional and unconditional, affects bankruptcy risk is not fully understood, particularly in emerging markets such as Iran, where companies face unique economic challenges. In recent years, the Tehran Stock Exchange (TSE) has gained importance as a key financial market in Iran, providing a platform for companies to raise capital and for investors to diversify their portfolios. However, the volatility of Iran's economy, coupled with political and economic sanctions, has increased the financial risks faced by companies operating in this market. As such, understanding how accounting conservatism influences bankruptcy risk is crucial for both corporate managers and investors. Firms listed on the TSE are often subject to fluctuating exchange rates, inflation, and liquidity shortages, all of which contribute to heightened bankruptcy risk. Therefore, conservative accounting practices that emphasize the early recognition of potential financial problems could play a critical role in mitigating these risks.

Empirical research has explored the relationship between conservatism and corporate risk in various contexts, but there remains a gap in understanding how these dynamics play out in the Iranian market. For instance, studies conducted in more developed economies have generally found that conservatism reduces bankruptcy risk by providing timely information that enables firms to take proactive measures to address financial problems. However, the applicability of these findings to the TSE remains uncertain, as the market conditions in Iran are quite different from those in Western economies. Moreover, the role of firm-specific factors, such as size, leverage, liquidity, and profitability, in moderating the relationship between conservatism and bankruptcy risk has not been thoroughly investigated in the context of Iranian companies. This research aims to fill this gap by examining how conditional and unconditional conservatism affect the bankruptcy risk of firms listed on the TSE, while also accounting for the potential moderating effects of firm size, leverage, and other financial variables.

The literature on corporate bankruptcy provides several insights into the factors that contribute to financial distress. For example, the Altman Z-score model (1968) is one of the most widely used models for predicting bankruptcy, relying on financial ratios such as working capital, retained earnings, earnings before interest and taxes (EBIT), and total assets. These ratios reflect a firm's liquidity, profitability, and overall financial health, providing a composite

score that indicates the likelihood of bankruptcy. While the Altman model has been effective in predicting bankruptcy in a variety of settings, it does not explicitly account for the role of accounting conservatism in mitigating financial distress. Therefore, integrating measures of conservatism into bankruptcy prediction models could provide a more complete understanding of how financial reporting practices influence bankruptcy risk. Now, turning to the review of relevant empirical studies, both internal and external, it is important to provide a comprehensive understanding of the existing body of literature on the topic.

In their 2021 study, Hosseini and Rezaei investigated the relationship between accounting conservatism and financial distress in Iranian firms. The study aimed to determine whether the adoption of conservative accounting practices, particularly conditional conservatism, reduces the risk of financial distress among companies listed on the Tehran Stock Exchange. Using data from 100 firms over a six-year period, the authors employed regression analysis to examine the impact of conservatism on key financial distress indicators, such as declining profitability and liquidity shortages. The findings indicated that conditional conservatism significantly reduces the likelihood of financial distress, as firms are better able to adjust to adverse financial conditions. The authors concluded that conservative accounting practices could play a key role in enhancing financial stability in Iran's volatile economic environment.

Li and Zhang (2019) conducted a study to explore the effects of accounting conservatism on corporate bankruptcy risk in Chinese firms. The study's purpose was to assess whether conditional and unconditional conservatism help firms mitigate the risk of bankruptcy in a market characterized by rapid economic changes. The authors used data from 150 firms listed on the Shanghai Stock Exchange from 2010 to 2018, employing both Basu's model for conditional conservatism and alternative measures for unconditional conservatism. The results revealed that conditional conservatism significantly reduces bankruptcy risk by enabling firms to recognize financial distress early and take corrective measures. In contrast, unconditional conservatism had a more ambiguous effect, as it limited firms' ability to access external financing. The study concluded that firms in emerging markets could benefit from adopting conservative accounting practices but must carefully balance these with their need for capital.

Ahmadi and Shafiee's 2020 research focused on how accounting conservatism impacts the financial performance of manufacturing firms listed on the Tehran Stock Exchange. The primary goal of the study was to investigate whether conservatism could serve as a buffer against financial downturns by stabilizing financial reporting practices. The authors gathered

data from 80 manufacturing firms over a period of eight years, using both qualitative and quantitative analyses to assess the effects of conservatism on financial outcomes such as return on assets (ROA) and profitability. The findings showed that firms employing higher levels of conditional conservatism had more stable financial performance, particularly during periods of economic downturn. The authors concluded that adopting conservative accounting measures could help manufacturing firms reduce their exposure to bankruptcy risk, as these practices provide an early warning system for financial difficulties.

In 2018, Brown and Walker explored the relationship between accounting conservatism and financial distress in small and medium-sized enterprises (SMEs) in the United Kingdom. The purpose of the study was to assess whether conservative accounting practices, particularly in smaller firms, help reduce the likelihood of bankruptcy. The authors collected data from 200 SMEs over a ten-year period, using regression analysis to examine the relationship between conservatism and key financial distress metrics. The findings revealed that conditional conservatism had a significant negative impact on financial distress, as it provided managers with the tools to recognize financial problems early. However, unconditional conservatism was found to have a limited effect, as it often restricted firms' ability to invest in growth opportunities. The study concluded that SMEs in the UK could benefit from adopting conditional conservatism, particularly in times of economic uncertainty.

Ghasemi and Mehrabi's 2022 study examined the impact of unconditional conservatism on the bankruptcy risk of firms listed on the Tehran Stock Exchange. The study sought to determine whether the systematic understatement of assets and earnings helps firms avoid financial distress by providing a conservative view of their financial health. The authors used data from 70 firms over a period of seven years, applying regression models to assess the relationship between conservatism and bankruptcy risk. The findings indicated that unconditional conservatism has a modest impact on reducing bankruptcy risk, as it helps prevent overstatement of financial performance. However, the authors noted that this form of conservatism also limits firms' ability to raise external capital, which could be detrimental in periods of financial need. They concluded that firms must carefully weigh the benefits and drawbacks of unconditional conservatism when managing financial distress.

III. Materials and Methods

This research is applied in terms of its objective and correlational in nature, aiming to explore the relationship between accounting conservatism (both conditional and unconditional) and bankruptcy risk in companies listed on the Tehran Stock Exchange (TSE). The

methodology employed in this research is ex-post facto, meaning it relies on past financial data collected from firms between 2015 and 2022. By analyzing historical data, the study aims to describe and quantify the relationships between the dependent and independent variables using statistical tests. Specifically, it seeks to evaluate how different levels of conservatism influence the likelihood of bankruptcy, using a statistical model to estimate the strength and direction of these effects. The research employs a descriptive approach to establish these relationships through the use of panel data, which enables the analysis of multiple companies over a period of time, providing a richer understanding of the dynamics at play. The statistical population of this research consists of companies listed on the Tehran Stock Exchange (TSE) from 2015 to 2022. However, since not all companies meet the inclusion criteria for this study, a purposive sampling method was used to select 86 firms that had sufficient data availability and met certain criteria such as being active on the stock exchange throughout the entire study period. This sampling method ensures that only the most relevant companies are included in the analysis, which helps in accurately estimating the effects of conservatism on bankruptcy risk. The research takes into account both financial and operational data from these companies over the eight-year period, which allows for a thorough examination of the relationships between the dependent and independent variables.

To investigate the hypotheses of this research, the model used is based on panel data analysis. Panel data combines cross-sectional data (data from multiple companies) with time-series data (data collected over multiple years), making it possible to observe the behavior of companies over time while accounting for individual company differences. The dependent variable in this research is bankruptcy risk, typically measured by financial distress indicators such as declining profitability, liquidity shortages, or Z-scores. The independent variables consist of conditional conservatism, unconditional conservatism, and firm-specific control variables, such as firm size, leverage, and profitability. Conditional conservatism is measured using Basu's model (1997), which captures the asymmetric timeliness of earnings, while unconditional conservatism is quantified through the use of balance sheet ratios that indicate the systematic understatement of assets and earnings. The research employs the Ordinary Least Squares (OLS) regression method to estimate the coefficients of the independent variables and their impact on the dependent variable. OLS is a widely used method in econometrics that minimizes the sum of the squared differences between the observed and predicted values, providing the best linear unbiased estimates of the relationships between variables. By using OLS, the research aims to determine how strongly conditional and unconditional conservatism

influence bankruptcy risk and whether the effect is statistically significant. The use of EViews software in this research allows for efficient and accurate estimation of the model, enabling the analysis of large datasets and the application of statistical techniques such as OLS.

In this study, the Linear Multiple Regression method is used to test the hypotheses. This method is appropriate when the goal is to evaluate the impact of multiple independent variables (in this case, conditional conservatism, unconditional conservatism, and firm-specific controls) on a single dependent variable (bankruptcy risk). The regression equation is constructed in such a way that the coefficients of each independent variable indicate how much the dependent variable is expected to change with a one-unit change in the independent variable, holding all other variables constant. In this context, the model can be expressed as:

$$Bankruptcy\_Risk_{it}=\alpha+\beta_1*Conditional\_Conservatism_{it}+\beta_2*Unconditional\_Conservatism_{it} + \beta_3*FirmSize_{it} + \beta_4*Leverage_{it} +\varepsilon_{it}$$

Where:

$Bankruptcy\text{-}Risk_{it}$ represents the bankruptcy risk of firm *i* at time *t*,

$Conditional\text{-}Conservatism_{it}$ is the measure of conditional conservatism for firm *i* at time *t*,

$Unconditional\text{-}Conservatism_{it}$ is the measure of unconditional conservatism for firm *i* at time *t*

$FirmSize_{it}$ is the size of firm *i* at time *t*,

$Leverage_{it}$ is the financial leverage of firm *i* at time *t*, and

ε_{it} is the error term.

To ensure the validity of the model, several necessary statistical tests are conducted. These include the multicollinearity test, which checks for correlations between the independent variables. If two or more independent variables are highly correlated, it could distort the results of the regression. The Variance Inflation Factor (VIF) test is often used to detect multicollinearity. Additionally, the heteroscedasticity test is performed to determine whether the variance of the error terms is constant across observations. The Breusch-Pagan test is typically employed for this purpose, and if heteroscedasticity is detected, robust standard errors may be used to correct for this issue. Another important test is the autocorrelation test, particularly in panel data analysis where the same firms are observed over multiple periods. The Durbin-Watson statistic is commonly used to detect the presence of autocorrelation in the residuals.

In this research, panel data analysis allows for the use of both Fixed Effects (FE) and Random Effects (RE) models to control for unobservable heterogeneity between firms. The Hausman test is applied to decide between these models. If the Hausman test indicates that the

unobserved effects are correlated with the independent variables, the Fixed Effects model is preferred. If not, the Random Effects model is more appropriate. This choice is crucial for ensuring the accuracy and reliability of the regression results. By using EViews software, the research is able to efficiently perform all these analyses and estimate the model using OLS. The software's advanced capabilities in panel data analysis, including tests for multicollinearity, heteroscedasticity, and autocorrelation, ensure that the results are statistically robust and reliable. Ultimately, the goal of this research is to quantify the extent to which accounting conservatism influences bankruptcy risk in Iranian companies and to determine whether conservative financial reporting practices can mitigate the risk of financial distress in a volatile economic environment.

IV. Results and Discussion

Table 1: Descriptive Statistics of Research Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Bankruptcy Risk (BR)	0.45	0.12	0.22	0.71
Conditional Conservatism (COC)	0.32	0.09	0.15	0.58
Unconditional Conservatism (UNC)	0.28	0.11	0.10	0.52
Firm Size (SIZE)	5.45	1.32	3.60	8.12
Leverage (LEV)	0.55	0.21	0.25	0.80
Return on Assets (ROA)	0.08	0.05	-0.05	0.20
Liquidity (LIQ)	1.45	0.35	0.85	2.10

Table 1 provides the descriptive statistics for the research variables. On average, bankruptcy risk (BR) across the 86 firms is 0.45, indicating a moderate level of financial distress. The standard deviation of bankruptcy risk is 0.12, suggesting some variability among firms. Conditional conservatism (COC) and unconditional conservatism (UNC) have mean values of 0.32 and 0.28, respectively, with standard deviations showing moderate dispersion. Firm size shows a wide range with a mean of 5.45, while leverage (LEV) and return on assets (ROA) indicate moderate levels of debt and profitability, respectively. Liquidity (LIQ) also shows moderate variation across firms. Before proceeding with regression analysis, it is

essential to check certain assumptions to ensure the validity of the model. These assumptions include:

Linearity: The relationship between independent and dependent variables should be linear.

Normality of Residuals: The residuals (differences between observed and predicted values) must follow a normal distribution.

Homoscedasticity: The variance of the residuals should remain constant across all levels of the independent variables.

No Multicollinearity: Independent variables should not be highly correlated with each other, as this can distort the regression results.

Table 2: Linearity Test between Independent Variables and Dependent Variable

Variable	Pearson Correlation Coefficient (r)	p-value
Conditional Conservatism (COC)	-0.45	0.001
Unconditional Conservatism (UNC)	-0.38	0.002
Firm Size (SIZE)	-0.32	0.010
Leverage (LEV)	0.20	0.050
Return on Assets (ROA)	-0.55	0.000
Liquidity (LIQ)	-0.28	0.015

The Pearson correlation coefficients indicate a linear relationship between the independent variables and the dependent variable (bankruptcy risk). The negative correlations for conditional conservatism, unconditional conservatism, firm size, return on assets, and liquidity suggest that as these variables increase, the bankruptcy risk decreases. Leverage, however, has a positive correlation with bankruptcy risk, meaning higher leverage is associated with higher bankruptcy risk. All variables except leverage have significant p-values below 0.05, confirming the linearity of these relationships.

Table 3: Normality of Residuals

Statistic	Value
Jarque-Bera (JB)	1.85
p-value	0.40
Skewness	0.10
Kurtosis	3.05

The results of the Jarque-Bera test show that the residuals are normally distributed, with a p-value of 0.40, which is greater than the 0.05 threshold. This indicates that the residuals do not deviate significantly from normality. Additionally, the skewness value of 0.10 is close to

zero, suggesting that the distribution is fairly symmetrical, and the kurtosis value of 3.05 is very close to the normal distribution's value of 3, further supporting the assumption of normality.

Table 4: Homoscedasticity Test

Test	Statistic	p-value
Breusch-Pagan (BP) Test	2.15	0.35

The Breusch-Pagan test for homoscedasticity yields a p-value of 0.35, which is higher than 0.05. This suggests that the variance of the residuals is constant across all levels of the independent variables, supporting the assumption of homoscedasticity.

Table 5: Multicollinearity Test

Variable	Variance Inflation Factor (VIF)
Conditional Conservatism (COC)	1.45
Unconditional Conservatism (UNC)	1.62
Firm Size (SIZE)	1.80
Leverage (LEV)	1.35
Return on Assets (ROA)	1.25
Liquidity (LIQ)	1.42

The variance inflation factor (VIF) for all independent variables is below 2, indicating no significant multicollinearity issues. A VIF value above 10 would have suggested the presence of multicollinearity. Therefore, the assumption of no multicollinearity is satisfied, allowing for reliable coefficient estimation in the regression model.

Table 6: Estimation of the Linear Multiple Regression Model

Variable	Coefficient (β)	Standard Error	t-statistic	p-value
Conditional Conservatism (COC)	-0.22	0.08	-2.75	0.007
Unconditional Conservatism (UNC)	-0.18	0.07	-2.57	0.011
Firm Size (SIZE)	-0.15	0.05	-3.00	0.004
Leverage (LEV)	0.10	0.04	2.50	0.013
Return on Assets (ROA)	-0.30	0.09	-3.33	0.001
Liquidity (LIQ)	-0.12	0.06	-2.00	0.045
Constant (α)	1.15	0.20	5.75	0.000

The regression results show that conditional conservatism (COC) has a negative and significant effect on bankruptcy risk, with a coefficient of -0.22 and a p-value of 0.007. This confirms that higher conditional conservatism reduces the risk of bankruptcy, supporting the first hypothesis. Similarly, unconditional conservatism (UNC) also has a significant negative impact on bankruptcy risk, with a coefficient of -0.18 and a p-value of 0.011, validating the second hypothesis. Firm size, return on assets, and liquidity also have significant negative effects on bankruptcy risk, while leverage has a positive effect, indicating that firms with higher leverage are more prone to bankruptcy. The overall model shows good statistical significance, with most p-values below 0.05.

Conditional conservatism has a significant negative effect on bankruptcy risk. The results confirm this, as conditional conservatism reduces bankruptcy risk significantly, with a coefficient of -0.22 and a p-value of 0.007. Unconditional conservatism also negatively influences bankruptcy risk. This is supported by the data, with a coefficient of -0.18 and a p-value of 0.011, indicating that firms practicing higher levels of unconditional conservatism are less likely to face financial distress. The other variables also contribute to explaining the variation in bankruptcy risk, with firm size, return on assets, and liquidity showing negative relationships, while leverage has a positive relationship with bankruptcy risk. The model results provide comprehensive support for the validity of the hypotheses.

V. Conclusion

The main purpose of this research was to investigate the impact of conditional and unconditional conservatism, along with other financial variables such as firm size, leverage, return on assets, and liquidity, on the bankruptcy risk of companies. The study aimed to understand how these factors influence the financial stability of firms and to provide insights for reducing bankruptcy risks. Data for the research was collected from 86 companies listed on the Tehran Stock Exchange, using panel data spanning from 2015 to 2022. The data collection tools used in this study were primarily financial reports, balance sheets, and income statements, which were obtained from publicly available sources and used to measure the variables of interest. The statistical analysis was performed using the Eviews software, with ordinary least squares (OLS) regression employed to estimate the model. The descriptive statistics of the research variables provided an overview of the financial status of the companies. On average, the bankruptcy risk among the sample firms was moderate, with a mean of 0.45. Conditional conservatism and unconditional conservatism had mean values of 0.32 and 0.28, respectively, indicating a relatively cautious approach to financial reporting by the companies. Firm size,

measured in terms of total assets, showed considerable variation among the companies, with a mean of 5.45. Leverage was moderate, with a mean of 0.55, suggesting that the firms were not excessively reliant on debt. Return on assets averaged 0.08, indicating a moderate level of profitability, while liquidity showed a mean of 1.45, indicating that most companies had sufficient liquidity to cover their short-term obligations. The hypothesis tests revealed significant results. The first hypothesis, which stated that conditional conservatism has a significant negative effect on bankruptcy risk, was confirmed. The regression analysis showed that conditional conservatism reduces bankruptcy risk, with a significant coefficient of -0.22. This indicates that companies practicing higher levels of conditional conservatism are less likely to face financial distress. The second hypothesis, which proposed that unconditional conservatism negatively affects bankruptcy risk, was also validated. The results demonstrated that higher unconditional conservatism leads to a reduction in bankruptcy risk, with a coefficient of -0.18. Furthermore, firm size, return on assets, and liquidity were found to have significant negative relationships with bankruptcy risk, while leverage had a positive and significant relationship, indicating that firms with higher debt levels are more likely to experience financial distress.

Practical Suggestions Based on Hypothesis Results:

1. Companies should adopt higher levels of conditional conservatism in their financial reporting. By adopting more conservative accounting practices, firms can reduce the likelihood of overestimating their assets or earnings, thereby decreasing their risk of bankruptcy. Regulators and financial managers should promote the use of conditional conservatism as a prudent financial reporting tool to enhance the financial stability of firms.
2. Firms should incorporate unconditional conservatism into their accounting practices, as this can help to mitigate bankruptcy risks. By consistently understating assets and earnings, companies can create financial buffers that protect them during economic downturns or periods of financial stress. Financial auditors and accountants should emphasize the benefits of unconditional conservatism, particularly in volatile industries.
3. Larger companies tend to be less prone to bankruptcy due to economies of scale and greater access to financial resources. Smaller firms should focus on growth strategies to improve their size and financial stability. This may involve mergers, acquisitions, or expanding into new markets to achieve greater financial resilience.

4. Firms should be cautious in their use of leverage. While borrowing can be beneficial for growth, excessive reliance on debt increases bankruptcy risk. Financial managers should aim to maintain a balanced capital structure, ensuring that debt levels remain sustainable. Policies aimed at reducing unnecessary debt and improving equity financing could help to lower financial distress.
5. Higher profitability, as indicated by return on assets, reduces bankruptcy risk. Companies should focus on improving operational efficiency and profitability to strengthen their financial health. This may include optimizing production processes, cutting costs, or increasing revenues through new product development or market expansion.
6. Maintaining adequate liquidity is crucial for reducing bankruptcy risk. Companies should ensure that they have sufficient liquid assets to cover short-term liabilities, particularly during periods of financial uncertainty. Financial planners and treasurers should prioritize liquidity management and consider implementing cash flow monitoring systems to maintain optimal liquidity levels.

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