

ACCOUNTING CONSERVATISM AND CORPORATE PERFORMANCE DURING THE COVID-19 PANDEMIC

Khadidja BENAZIZA * 

University of 20 August 1955-Skikda, Algeria

Bilal KIMOUCHE 

University of 20 August 1955-Skikda, Algeria

Abstract: This paper examines the extent to which Algerian companies practised accounting conservatism during the COVID-19 pandemic and whether this practice impacted their performance. The study included 323 observations across 65 non-financial Algerian companies from 2018 to 2022. Accounting conservatism was measured by negative (non-operating) accounting accruals, and corporate performance was measured by the return on equity. The COVID-19 pandemic period was introduced as an interactive dummy variable. The results showed increased levels of accounting conservatism during the pandemic, which negatively affected corporate performance. Additionally, leverage had a negative impact on performance during the same period, while company size had a positive effect on financial performance. Therefore, the study recommends adopting flexible accounting policies that allow adaptation to economic changes without significant impacts on performance.

JEL Classification: G01, I15, L31, M41

Keywords: Accounting conservatism, Corporate performance, COVID-19 pandemic, Non-operating accruals, Return on equity, Algerian companies.

1. Introduction

The spread of the Coronavirus has widely impacted companies and all related matters. The most important is the process of preparing and certifying financial statements, as it has become necessary to provide useful information under the conditions of uncertainty that accompany this crisis regarding the future of companies.

* Corresponding author. Address: Laboratory of Economic, Finance and Managements, University of 20 August 1955-Skikda (Algeria), Department of Financial Sciences and Accounting, email addresses: kh.benaziza@univ-skikda.dz

The situation of uncertainty during times of crisis makes investors more risk-averse and more dependent on fundamental information because they consider other information confusing and conflicting (Lang, 2011). Therefore, accounting information and related disclosures are more useful to the market and investors (Cui et al., 2021).

The closures due to the pandemic caused huge economic losses, leading to a collapse of stock markets and a decline in GDP, which created high uncertainty about the effects of the pandemic on companies that suffer from significant declines in sales and increasing layoffs to reduce expenses and avoid bankruptcy. The COVID-19 pandemic has had significant impacts on stock markets, leading companies to face a liquidity crisis and increasing default risks (Al-Qudah, 2022). This reality has prompted companies to adopt more conservative accounting policies when preparing their financial statements to avoid excessive expectations and ensure that assets and liabilities reflect their true values (Berendsen, 2011).

Accounting conservatism represents a cautious reaction to the uncertainties and risks inherent in business situations that must be taken into account in order to exercise pertinent judgements (Givoly & Hyan, 2000). For example, when the company faces uncertainty regarding gains, managers should delay their recognition. Conversely, when the company experiences uncertainty regarding losses, managers are required to record them immediately (Nurzi & Yuanita, 2016). Also, conservatism includes the selection of specific accounting methods that result in a reduction in the value of net assets (Berendsen, 2011).

Managers have an important role in selecting accounting policies and therefore have a significant impact on accounting conservatism (Hung, 2021). Given the differences in accounting practices and policies among companies and the need for managers to faithfully present the financial statements of their companies, they tend to select and apply conservative accounting policies in situations of doubt and uncertainty when facing multiple methods of measurement. It is worth noting that the adoption of a conservative view can fundamentally affect the financial statements of the company (Al-Fasfus et al., 2022).

Although it has been criticised and opposed by many researchers and practitioners due to its negative impact on the quality of financial reporting, accounting conservatism still plays an important role in enhancing the reliability of financial reporting, especially in times of crises, which is positively reflected in investors and market confidence (Abed & Khudair, 2022). During periods of recession, investors become more risk-averse, rely more on fundamental information, and view other information as worrying and speculative, with increased market risk and uncertainty. For that, more conservative financial statements have become increasingly important (Al-Qudah et al., 2022).

Within these challenges, accounting conservatism, as a principle and the cornerstone of accounting practice, became a tool for providing a faithful representation of companies' performance. This can be achieved by constraining excessive optimism when recognising income (gains) and expenses (losses). Accounting conservatism seeks to reduce risks, increase investor confidence, and comply with legal and regulatory requirements, in addition to improving future financial planning. In general, accounting conservatism enhances the reliability of financial reports and ensures the sustainability of financial performance.

Financial performance represents an assessment of the variation in the company's financial position during the period to determine whether the assets are

effectively used to generate profits (Rudi, Kurniasih & Tubagus, 2020). Since financial statements are the main source of data necessary to assess corporate performance and make many decisions, the accuracy of the decisions depends primarily on the accuracy and integrity of the financial information, which is the final product for selecting and applying accounting policies.

This study explores the effect of accounting conservatism on corporate performance during the COVID-19 period. The study included 323 observations for 65 Algerian companies during the period 2018-2022, where accounting conservatism was measured by non-operating (negative) accruals, and financial performance was measured by the return on equity ratio. The COVID-19 pandemic was expressed as a dummy variable. The results indicate that Algerian companies practised a certain level of accounting conservatism during the COVID-19 period, which negatively affected their financial performance. The results suggest excessive caution by Algerian companies during the COVID-19 period as a means to maintain capital and adapt to the crisis, in addition to mitigating the negative influence of the crisis.

This study not only examines the direct relationship between accounting conservatism and corporate performance but also explores that relationship during the COVID-19 pandemic and introduces the pandemic period as an intermediate variable. This approach provides an accurate understanding of how severe crisis circumstances affect fundamental accounting practices. Although the empirical study included a sample of Algerian companies, the results offer important insights for other emerging markets facing similar economic conditions, contributing to the international literature on financial reporting in times of crisis. Thus, the study fills a research gap related to the interactive impact of global crises on accounting practices and disclosure.

The remainder of this paper was divided into the following sections: first, we provide an overview of the literature about accounting conservatism and corporate performance; then we present the study's methodology; and then we present and discuss the results.

2. Literature review

The American Financial Accounting Standards Board defines conservatism as the use of less optimistic estimates when assessing amounts that will be received or paid in the future (Zhang, 2008). It is a rational response to ensure that uncertainties and potential risks inherent in business activities are taken into account (Ruch & Taylor, 2015). The International Accounting Standards Board (IASB) also addressed conservatism as a component of the qualitative characteristics of accounting information (Nguyen et al., 2022). The IASB emphasises the necessity of adopting a degree of caution when making the required judgements and estimates under conditions of doubt and uncertainty (Wang, 2009). Conservatism is a guarantee to avoid the overvaluation of assets and income or the undervaluation of liabilities and expenses (Leune, 2014), which can help managers achieve neutrality in selecting accounting policies and thus the reliability of financial reports (Kimouche, 2021).

The literature distinguishes two forms of accounting conservatism: conditional and unconditional. Conditional conservatism represents a subsequent conservatism and relies on economic news (Beaver & Ryan, 2005). It refers to the adoption of different

levels of verification regarding the recognition of revenues and expenses in response to the occurrence of economic news (Watts, 2003). In other words, conditional conservatism expresses the idea that bad news is timely recorded in earnings, while the recognition of good news should be delayed (Basu, 1997). On the other hand, unconditional conservatism, which is called prior conservatism or news-independent conservatism, requires the recognition of losses before the appearance of economic news (Beaver & Ryan, 2005).

The demand for accounting conservatism can be attributed to several factors. First, contractual motivations are among the known explanations for accounting conservatism, which is considered an essential tool for concluding contracts. Debtors try to prevent excessive dividends to maintain net asset value and protect their loans. Gains need more stringent verification standards than losses, which results in the deferral of their recognition. This reduces the possibility of inflating assets and earnings and limits the risk of violating contracts or reducing the value of the company (Shaalan, 2019). According to Balakrishan et al. (2016), companies with more conservative financial statements have more opportunities to obtain loans and perform debt contracts with better terms.

Second, accounting conservatism can be used as a means of tax evasion by reducing the amount of tax paid, which leads to a reduced tax burden incurred and improves the company's reputation (Zarai & Abderrahim, 2009). Third, the exaggeration in reporting earnings and net assets can lead to litigation risks, so accounting conservatism is a means to mitigate litigation costs (Watts, 2003). Finally, regulatory motivation is also among the determinants of the demand for accounting conservatism, which relates to the structure of the profession and how accounting standards are developed (Leune, 2014). Companies can adopt certain levels of accounting conservatism as a response to new legislation or regulations.

Performance refers to a set of measures, indicators, or standards used to assess the efficiency and effectiveness of company operations and their exposure to risks, which summarise the ability of the company to allocate available resources and generate earnings (Oluwagbade, 2023). It is also considered a tool for measuring the evolution of the financial position of a company by analysing financial ratios for specific periods in the face of changing environmental conditions (Ananda, 2023; Azizah, 2023).

Corporate performance is influenced by several factors that can be categorised into external and internal. External factors encompass some variables and constraints outside the company, which can be classified into economic, social and cultural, political and legal, and technological factors. Economic factors affect financial performance through surrounding economic conditions, whether positive or negative, such as increased demand or price deterioration. Social and cultural factors consist of the intellectual and moral values within society, which can provide useful information or pose challenges to performance improvement.

Companies are also influenced by political and legal factors through international relations and state foreign policies, which can enhance performance. Technological factors include advancements that help to reduce costs and increase revenues (Melhem, 2019). On the other hand, internal factors are those under the control of companies, including company size, activity level, company age, liquidity ratio, financial leverage, industry, governance system, internal control, etc. (Abdulrahman & Al-Shuraimi, 2020).

The impact of accounting conservatism on corporate performance during crisis periods is a complex and multidimensional topic. Conservatism plays a pivotal role in mitigating information asymmetry and building trust between stakeholders and management, as well as enhancing transparency and credibility, which helps companies navigate economic downturns with minimal damage. However, conservatism can also be employed to manipulate earnings in ways that may be illegitimate or misleading, highlighting the need for strong and effective governance to ensure its proper use.

Previous studies have shown mixed results on this topic; the study by Al-Fasfus et al. (2022) indicated that the effect of accounting conservatism on financial performance is insignificant. This aligns with the study by Bouzid & Benlamoudi (2023), who revealed no relationship between accounting conservatism and corporate performance, attributing this result to the environmental differences and specificities of Algerian companies since the majority of them are family- or state-owned and focus more on social objectives. This contradicts the studies by Al-Bawab (2023) and Fariz et al. (2020), which found a positive impact of accounting conservatism on corporate performance.

The study by Al-Qudah et al. (2022) showed a significant positive effect of the COVID-19 pandemic on accounting conservatism in Jordanian banks. This is attributed to the higher level of uncertainty within the banking system, accompanied by rising inflation rates and political issues in neighbouring countries, such as Syria and Iraq. This aligns with the study by Yassir et al. (2023), which found a positive impact of accounting conservatism on corporate performance during the pre-pandemic period; this impact was increased during the pandemic, indicating a market need for conservative accounting policies.

The study by Cui et al. (2021) examined the relationship between the financial reporting characteristics of companies and stock returns during the COVID-19 pandemic and found that Chinese companies listed on the Shanghai Stock Exchange that applied more conservative accounting policies experienced smaller declines in stock returns during the market collapse caused by the pandemic. Moreover, the positive relationship between conditional conservatism and stock returns during the pandemic was only evident when companies faced greater uncertainty.

In conclusion, the literature review highlights a wide range of results concerning the relationship between accounting conservatism and corporate performance in different situations. This fact can be attributed to the differences between studies regarding methodological procedures, especially variable measurements and control variables used. Overall, previous studies did not employ the COVID-19 pandemic as a mediating variable between accounting conservatism and corporate performance. Therefore, we formulated the following hypothesis:

Hypothesis: There is an effect of accounting conservatism on financial performance during the COVID-19 pandemic in Algerian companies.

3. Methodology

This section presents the method and materials, including the sample, model specification, and measurement of variables.

3.1. Sample selection

The study population consists of non-financial Algerian companies, which belong to five different sectors: services, food industries, energy, public works and construction, and pharmaceutical and semi-pharmaceutical industries. A random sample of 65 companies was selected due to the availability of the financial data required to conduct the study. The study included a period extending from 2018 to 2022, for a total of 323 observations. The financial data was collected from the online portal of the National Centre for Commercial Register (CNRC) [<https://sidjilcom.cnrc.dz/en/web/sidjilcom/>].

3.2. Model specification

To clearly describe the problem of the study, we formulated a model that takes the form of a multiple linear regression. The model measures the effect of the independent variable, which is accounting conservatism, on the dependent variable, which is corporate performance. The study model can be expressed by the following equation:

$$Perf_{it} = \alpha_0 + \alpha_1 Cons NA_{it} + \alpha_2 Lev_{it} + \alpha_3 Size_{it} + \alpha_4 Covid_t + \alpha_5 (Covid * Cons NA)_{it} + \alpha_6 (Covid * Lev)_{it} + \alpha_7 (Covid * Size)_{it} + \varepsilon_{it}$$

Where:

Perf_{it}: is the company's performance;

Cons NA_{it}: is the level of accounting conservatism;

Lev_{it}: is the level of financial leverage;

Size_{it}: is the company size;

Covid_t: is the Coronavirus pandemic period;

(Covid*Cons NA)_{it}: is an interactive variable between the Coronavirus pandemic and accounting conservatism;

(Covid*Lev)_{it}: is an interactive variable between the Coronavirus pandemic and the level of financial leverage;

(Covid*Size)_{it}: is an interactive variable between the Coronavirus pandemic and company size;

α₀: is a constant;

α₁ α₂ α₃ α₄ α₅ α₆ α₇: are the regression coefficients of the model;

ε_{it}: is the error term.

3.3. Variables' measurement

Most previous studies have used four measures for accounting conservatism. The first is the model by Basu (1997), which was excluded because it relies on the efficient financial market hypothesis, which does not correspond with emerging markets like Algeria, and it focuses only on conditional conservatism. The second is the book-to-market value model, which was also excluded due to the unavailability

of market data in Algeria and the significant influence of economic fluctuations on the companies' market values. The third is the model of "hidden reserves", which is characterised by many practical difficulties in estimating the hidden reserves, so it was excluded. Consequently, the study used the negative (non-operating) accruals model to express accounting conservatism. According to Givoly & Hayn (2000), under conservative practices, the recognition of gains is postponed and the recognition of losses is accelerated, so repeating this process period after period results in negative non-operating accruals. To measure conservatism according to this proxy, we used the following equation:

$$\text{Cons NA} = \text{TACC} - \text{OPACC}$$

Where:

Cons NA: is the non-operating accruals calculated as the difference between total accounting accruals (TACC) and operating accruals (OPACC).

TACC: is the total accounting accruals, which are calculated as follows:

TACC = net income + depreciation – cash flows from operations.

OPACC: is the operating accruals calculated as follows:

OPACC = change in inventories + change in debtors + change in other current assets – change in creditors – change in other current liabilities.

The items of the equation are divided by the total assets to avoid dispersion when estimating the model.

The performance of companies is expressed through an accounting-based measure, which is the return on equity ratio. The company size was measured by the logarithm of total assets, while the financial leverage was measured by dividing total debts by total liabilities. Finally, the Coronavirus pandemic period was measured as a dummy variable, taking the value 1 during the COVID-19 period (2019, 2020, and 2021), otherwise 0.

4. Data analysis and results

4.1. Descriptive statistics

To clarify the characteristics of the data used to estimate the study model, some descriptive statistics for 323 observations are shown in Table 1. These statistics provide an overview of the data distribution and help better understand the characteristics of the variables.

The results indicate that non-operating accruals reached -5.11% of total assets on average, indicating the existence of conservatism practices in Algerian companies. The standard deviation reached 0.1861 and suggested a medium dispersion, where non-operating accruals varied from 0.4413 as the maximum value to -3.1655 as the minimum value. For corporate performance as measured by the return on equity ratio, it reached 6.67% on average, indicating that the studied companies achieved a positive return for shareholders, with a standard deviation of 0.1671, suggesting a high dispersion when taking into account the maximum value (0.7914) and the minimum value (-0.9464).

The financial leverage ratio indicates that total debts represented 58.79% of total liabilities during the period on average, with a standard deviation of 0.2375, which suggests a medium dispersion when considering the upper and lower values that reached 0.9847 and 0.0112, respectively. The company size, as the logarithm of total assets, reached 9.6945 with a medium dispersion, where the standard deviation reached 1.1940 and the range was confined between 6.7984 and 13.225. Finally, the Jarque-Bera statistic was significant at the 1% level for all variables, except for the company size, which was insignificant. Therefore, excluding the company size, all variables are not normally distributed.

Table 1: Descriptive statistics results

	PERF	Cons NA	LEV	SIZE	COVID	(COVID* Cons NA)	(COVID* LEV)	(COVID* SIZE)
Mean	0.0667	-0.0511	0.5879	9.6945	-	-0.0338	0.3495	5.7973
Median	0.0596	-0.0339	0.6111	9.7318	-	-0.0068	0.3202	8.5534
Maximum	0.7914	0.4413	0.9847	13.225	1	0.1088	0.9818	13.225
Minimum	-0.9464	-3.1655	0.0112	6.7984	0	-3.1655	0.0000	0.0000
Std. Dev.	0.1671	0.1861	0.2375	1.1940	0.4912	0.1797	0.3415	4.8550
Jarque-Bera	852.090	796647	14.171	0.9662	54.170	11015	33.279	46.703
Probability	0.0000	0.0000	0.0008	0.6169	0.0000	0.0000	0.0000	0.0000
Observations	323	323	323	323	323	323	323	323

Source: Based on Eviews 13

4.2. Correlation analysis

Table 2 shows the correlation matrix between the study variables during the period 2018-2022 to test the relationship between the variables. Table 2 shows negative and weak correlations of financial performance with accounting conservatism and financial leverage during the whole period of study, which are significant at the 1% level. However, the correlation of financial performance with company size is insignificant.

When taking into account only the COVID-19 period, the correlation between financial performance and accounting conservatism became insignificant. The correlation between financial performance and financial leverage has known little change regarding its value, which increased from 0.217 to 0.254 with a negative value in both cases. However, the correlation between financial performance and company size became significant at the 1% level and negative, but it was weak. Furthermore, the results show a significant correlation between financial performance and the COVID-19 period, which is negative and medium. These results provide indications of the influence of accounting conservatism on financial performance, which was affected by the COVID-19 pandemic.

Table 2: Correlation matrix

Correlation Probability	PERF	Cons NA	LEV	SIZE	COVID	(COVID* Cons NA)	(COVID *LEV)	(COVID* SIZE)
Cons NA	-0.183 0.001	1.000 -----						
LEV	-0.217 0.0001	0.177 0.001	1.000 -----					
SIZE	0.007 0.902	0.023 0.683	-0.341 0.000	1.000 -----				
COVID	-0.161 0.004	0.031 0.584	-0.032 0.562	0.002 0.972	1.000 -----			
(COVID*Cons NA)	0.004 0.949	0.450 0.000	0.094 0.090	-0.026 0.641	-0.720 0.000	1.000 -----		
(COVID*LEV)	-0.254 0.0000	0.083 0.135	0.339 0.000	-0.126 0.024	0.879 0.000	-0.589 0.000	1.000 -----	
(COVID*SIZE)	-0.136 0.014	0.025 0.651	-0.156 0.005	0.373 0.000	0.879 0.000	-0.648 0.000	0.695 0.000	1.000 -----

Source: Based on Eviews 13

4.3. Stationary test

Before using the cross-sectional time series to estimate the study model, we need to ensure that the data used is stationary. Non-stationary cross-sectional time series (that contain unit roots) indicate a constant trend or fluctuations over time, which may affect the model results and imply resorting to dynamic models. To test the unit root, we used Levin, Lin & Chu t as shown in Table 3.

Table 3: Stationary study

Method		Individual intercept	Individual intercept and trend	None
PERF	Statistic	-26.1026	-31.7632	-7.35100
	Prob.	0.0000	0.0000	0.0000
Cons NA	Statistic	-378.215	-144.480	-121.628
	Prob.	0.0000	0.0000	0.0000
LEV	Statistic	-40.7741	-67.4942	-1.83228
	Prob.	0.0000	0.0000	0.0335
SIZE	Statistic	-33.8722	-272.344	2.75834
	Prob.	0.0000	0.0000	0.9971
COVID	Statistic	-9.14043	12.2638	-0.03293
	Prob.	0.0000	0.0000	0.4869
(COVID*Cons NA)	Statistic	-8.34256	-6.53822	0.55747
	Prob.	0.0000	0.0000	0.7114
(COVID *LEV)	Statistic	-9.29921	-12.1617	-0.81900
	Prob.	0.0000	0.0000	0.2064
(COVID*SIZE)	Statistic	-8.99953	-12.4238	0.07806
	Prob.	0.0000	0.0000	0.5311

Source: Based on Eviews 13

It is clear from Table 3 that all variables are stationary at level I (0) since the test is significant at the 1% level, except for financial leverage without individual intercept and trend, which is significant at the 5% level, in addition to the company size and the variables that interacted with the COVID-19 period, which are insignificant. Overall, these results indicate that all variables are stationary at level I(0) and do not contain unit roots.

4.4. Model estimation results

To estimate the study model, the three main approaches of panel data were employed, including the Pooled Regression Model, the Fixed Effects Model, and the Random Effects Model. Then, a comparison between the three models was made, and the appropriate model was chosen and analysed.

According to the Likelihood Ratio test summarised in Table 4, it appears that the significance level of the test is less than 1%, so the null hypothesis must be rejected and the alternative hypothesis must be accepted, which means that the Fixed Effects Model is more valid when compared to the Pooled Regression Model.

Table 4: The Likelihood Ratio test

Effects Test	Statistic	d.f	Prob.
Cross-section F	9.835749	(64,251)	0.0000

Source: Based on Eviews 13

After validating the Fixed Effects Model, it is necessary to compare it with the Random Effects Model through the Hausman test. The results summarised in Table 5 indicate that the Fixed Effects Model is also more valid when compared with the Random Effects Model, as the Hausman test is significant at the 1% level.

Table 5: The Hausman test

Test Summary	Chi-Sq Statistic	Chi. Sq. d.f	Prob.
Cross-section random	24.842210	7	0.0008

Source: Based on Eviews 13

The results in Table 6 confirm the results of validity tests in Tables 4 and 5, since the model is significant at the 1% level only in the case of the Fixed Effects Model, and the adjusted determination coefficient of the Fixed Effects Model is very high when compared to those of the Pooled Regression Model and Random Effects Model, which are negative. According to the Fixed Effects Model, the independent variables explain 66.30% of the variations in the financial performance of the studied Algerian companies. The Durbin-Watson statistic reached 2.10 and was very close to the value 2, which means that the model's residuals are not autocorrelated.

The results of the Fixed Effects Model indicate that during the whole period of study, only company size affects financial performance, where its parameter is significant at the 1% level, suggesting a positive impact of company size on corporate performance. However, the parameters of other independent variables were insignificant during the whole period of the study. Contrarily, during the COVID-19 period, all independent variables were significant at the 1% level (COVID-19 and company size) or at the 5% level (accounting conservatism and financial leverage). The results show the negative effects of accounting conservatism, COVID-19, and financial leverage on financial performance. However, the effect of company size remains positive.

Companies exaggerated with caution during the COVID-19 period, leading to a reduction in disclosed earnings and maintaining capital, and thus, a decrease in financial performance, in addition to the decrease due to the recession caused by the crisis. This situation constrains the necessary investments for growth and limits the ability of companies to adapt to the crisis. This, in turn, sent negative signals to the market about the stability of companies, which led to a decline in investor confidence and difficulty in obtaining the necessary financing. As a result, companies' ability to ensure business continuity has decreased. Starting from the previous results, we can accept the hypothesis of the study, and therefore, accounting conservatism affected financial performance during the COVID-19 pandemic in Algerian companies.

Table 6: Model estimation results using the methods of panel data

Variables		Pooled Regression Model	Fixed Effects Model	Random Effects Model
Constant	Coefficient t-Statistic	0.415012 (0.886875)	-3.961076 (-5.710429)*	0.415012 (0.868813)
Cons NA	Coefficient t-Statistic	0.195184 (0.309475)	0.112252 (1.321631)	0.195184 (0.303172)
LEV	Coefficient t-Statistic	0.002001 (0.021458)	0.025058 (1.632801)	0.002001 (0.021021)
SIZE	Coefficient t-Statistic	-0.028787 (-0.626848)	0.418125 (5.823666)*	-0.028787 (-0.614082)
COVID	Coefficient t-Statistic	-0.445345 (-0.757328)	-0.204640 (-4.868788)*	-0.445345 (-0.741904)
(COVID*Cons NA)	Coefficient t-Statistic	-0.340710 (-0.517159)	-0.173301 (-1.729851)**	-0.340710 (-0.506626)
COVID*LEV	Coefficient t-Statistic	-0.005870 (-0.062855)	-0.026508 (-1.729172)**	-0.005870 (-0.061575)
COVID*SIZE	Coefficient t-Statistic	0.032838 (0.560015)	0.014466 (-5.710429)*	0.032838 (0.548610)
R ²		0.012084	0.737324	0.012084
Adj. R ²		-0.009870	0.663022	-0.009870
Durbin-Watson		2.088489	2.102721	2.088489
F-Statistic		0.550411	9.923252	0.550411
Prob.		0.795777	0.000000	0.795777
observations		323	323	323

* significant at 1%

** significant at 5%

Source: Based on Eviews 13

5. Conclusion

The results of this study suggested that Algerian companies practised a certain level of accounting conservatism during the COVID-19 period, which negatively affected the level of financial performance. The results indicated an excessive caution by Algerian companies during the COVID-19 period, which led to reducing earnings to maintain capital and adapt to the crisis, in addition to mitigating the negative influence of the crisis.

The results also showed a negative impact of COVID-19 on the financial performance of Algerian companies. This can be explained by the fact that the restrictions and closures led to a decrease in demand and the disruption of supply chains, which negatively impacted the companies' financial performance. The level of financial leverage also has a negative impact on the financial performance of companies during the COVID-19 period because highly indebted companies face higher financing costs and are more affected than companies with low leverage. Highly indebted companies need fixed payment obligations under the decline in sales and revenues during the pandemic, which increased their financial risks that reflected negatively on their financial performance.

For the company size, the results showed a positive impact of company size on financial performance during the COVID-19 period, which means that large Algerian companies are highly efficient in their performance and less affected by the pandemic because they have sufficient capabilities to adapt to the changes that occur in the market, in addition to their experience in managing crises faster and more effectively with their high ability to reach financing, which allows them to overcome the financial challenges that faced during the pandemic.

The results of this study require companies to cling to conservative accounting practices without exaggeration and benefit from their advantages regarding the faithful representation of financial statements, and maintain capital by avoiding overstatement of income and earnings. The need for accounting conservatism increases during crisis periods to mitigate the negative influences of downturn situations. Managers do not deal negatively with accounting conservatism due to its negative effect on the financial performance of companies, since this effect will be positive in the long term.

Like any scientific research, this study had some limitations that serve as a starting point for future research. The most prominent limitation lies in the small size of the sample, which included 65 non-financial companies in the Algerian context, potentially restricting the generalisability of the results to other sectors or economies. The dependence on a single measure of accounting conservatism raises questions about the possibility of obtaining different results using alternative measures. Furthermore, the study's focus on the pandemic period allows for the exploration of long-term effects in the post-pandemic period. These limitations open broad prospects for future research, where comparative studies can be conducted between emerging and developed markets to understand corporate responses to accounting conservatism during crises according to the degree of market development. It is also recommended to conduct an in-depth analysis to detect the differences between the various economic sectors that may have been affected differently by the pandemic.

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