

THE EFFECT OF ACCOUNTING CONSERVATISM AND FINANCIAL CONSTRAINTS ON DIVIDEND POLICY

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Abstract

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This study examines the relationship between accounting conservatism (AC) and financial constraints (FC) and their impact on dividend policy (DP). It was noted that the sample companies lack a clear explanation for their dividend policy despite achieving high profits. The study concluded that companies tend to use accounting conservatism as a result of financial constraints on their internal investments, which prevents them from benefiting from less costly external investments. This drives them to adopt policies that reduce dividend distribution to shareholders. Accounting conservatism and higher financial constraints lead to lower dividend distributions. Accounting conservatism measures show a greater negative impact on dividend policy compared to financial constraints measures. This means that a higher degree of conservatism leads to lower dividend distributions. However, financial constraints play a significant role in explaining the dependent variable when combined with accounting conservatism. This interpretation is consistent with Kim et al. (2023) and Abdel Tawab (2022). These results are important for regulators and standard setters regarding the importance of accounting conservatism and financial constraints within accounting standards, as accounting conservatism is widely used in practice by recording the benefits of accounting conservatism in reducing financial constraints, which better explains the companies' dividend policy.

Keywords: Accounting Conservatism, Financial Constraints, Dividend Policy, Accounting Conservatism Measures, Financial Constraints Measures

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1. INTRODUCTION

Accounting conservatism (AC) assumes a more cautious approach to recognizing assets and profits, or liabilities and losses. This affects dividend policy (DP) and the timing of their payment to shareholders, as it accelerates the recognition of losses versus the recognition of profits, leading to lower dividends (Ball & Shivakumar, 2005). The justification for preparing conservative financial reports is that it reduces information asymmetry, which helps mitigate future financial risks (Basu, 1997). AC and financial constraints (FC) are similar

in appearance to each other, as they arise as a result of a set of factors facing companies that weaken their ability to obtain the external financing necessary for their current and future operational and financial activities, and as a result of information asymmetry, which makes external funds more expensive than internal funds (Kaplan & Zingales, 1997; Whited & Wu, 2006). Many studies have examined the relationship between AC and FC from several aspects, the most important of which are reducing the intensity of conflicts of interest between shareholders and creditors, reducing financial risks, controlling unjustified DP, working to

improve the efficiency of debt covenants, reducing information asymmetry, studying the cost of external financing and attracting successful investments, and increasing the ability of lenders to monitor the performance of borrowing companies (Alves & Carmo, 2022; Khalaf et al., 2023; Muttaqi & Nur, 2025; Tran et al., 2025; Nikolaev, 2010; Ferrando & Mulier, 2015; Feng et al., 2014; Demonier et al., 2015; Mansali et al., 2019; Kim et al., 2023; Abdel Tawab, 2022; Zainy, 2024; Hou et al., 2025).

The current study examines the reasons that drive industrial companies to use AC, especially when FC factors are present. It also examines the reasons for not distributing dividends to shareholders despite achieving annual financial profits. This study applies key mathematical models to measure AC and FC, explaining the relationship between them and their impact on the annual DP of investors. The current study contributes to enhancing investors' ability to search for future investments that lead to greater dividend distributions by examining the manifestations of AC and FC factors. It also helps companies to determine appropriate dividend distribution policies to investors, balancing risk reduction and maintaining company value.

The rest of the paper is structured as follows. Section 2 reviews the literature on AC and FC. Section 3 presents the research methodology. Section 4 presents and discusses the results. Section 5 concludes the paper.

2. LITERATURE REVIEW

2.1. Effect of accounting conservatism on dividend policy

AC is widely used in practice, although regulators have moved away from considering AC as a principle in the conceptual framework due to the shift toward using fair value (Framework, 2018). However, conservatism has important benefits associated with FC and provides a higher quality measurement of long-term accounting earnings. AC assumes that accounting statements reflect a more prudent approach to recognizing assets and liabilities, through the timing of earnings recognition and distribution to investors, as expressed by DP. This approach leads to a lower amount of earnings distributed to shareholders in the short term due to recognizing losses or liabilities before recognizing gains or assets (Ball & Shivakumar, 2005; Talawa & Badwan, 2024).

DP concerns the optimal method for distributing retained earnings to shareholders based on their percentage of ownership. Companies seek the optimal policy that achieves a balance between current profits, future growth, and maximizing the share price in financial markets, thus maximizing the company's value (Brealey et al., 2014; Chaudhary et al., 2016).

Referring to the study of the impact of AC on DP, the motivation to use AC and adhere to this approach enhances data consistency and information quality in financial reporting, as Basu (1997) argues. This is especially true when using fair value is difficult in some markets or financially unregulated environments, and the uncertainty associated with financial data is high. Therefore, AC reduces the risk of future uncertainty in these types of markets. This is confirmed by a study of Javed

et al. (2024), that companies practicing AC can increase the reliability of their financial information in reports, provide better results in analyzing financial indicators for investors, and encourage them to invest in these companies' shares.

Therefore, companies should carefully consider how AC affects DP because it influences dividend payout ratios, stock prices in financial markets, investor data analysis, and investment decision-making. Investors prefer companies with higher dividends rather than capital gains due to the lower risk and greater certainty associated with receiving dividends. The relationship between AC and DP has been investigated in several studies. Previous research on AC provides important theoretical guidance, as well as some empirical evidence on the use of AC. Ciocan (2019) discusses the use of AC through provisions in accounting and examines its impact on dividend distributions. It shows that AC has an inverse effect on the amount of dividends distributed to shareholders, although acknowledging conservatism has a positive effect by reducing the impact of potential losses from future negative events. This is confirmed by Ramalingegowda et al. (2013), who found a negative relationship between AC and DP. This is due to the fact that minority shareholders' interest in high dividend rates drives controlling shareholders to focus on AC to reduce dividends distributed to shareholders, thus achieving high retained earnings ratios that can be used for future expansion and development of the company. Chen and Zhu (2009) view AC as protecting creditors' rights by influencing reported net income, which in turn affects the amount of dividends distributed to shareholders. This implies a negative relationship between AC and dividend payouts. This suggests that companies that distribute high dividend payouts are typically less conservative compared to companies that distribute lower dividends or do not pay any cash dividends. This means that AC may reduce cash dividends and the likelihood of their distribution to shareholders (Ahmed et al., 2002).

While other studies have found a positive relationship between AC and DP, e.g., Atwa et al. (2022) found a positive relationship between AC, cash dividends to shareholders, and leverage, which focuses on debt ratios. Similarly, Wang and Wang (2015) demonstrated that using AC methods leads to increased cash flows, which can be used to increase the dividend payout ratio. Maiyo et al. (2025) argued that companies with higher levels of AC tend to distribute higher dividends to shareholders, as this practice demonstrates the company's financial stability and information reliability.

After discussing these studies, we note a clear relationship between AC and DP. Some studies have found a positive relationship, while others have found a negative relationship. These studies are certainly influenced by numerous factors, such as company size, DP, profitability, growth rate, leverage, industry characteristics, and profitability. This requires further research to understand the relationship between these two approaches.

2.2. Effect of financial constraints on dividend policy

FC arises as a result of a combination of factors (such as high indebtedness, low profits, small working capital, small company size, etc.) that companies face and weaken their ability to obtain

the external financing necessary for their current and future operational and financial activities, and its high cost, which affects the distribution of cash dividends and the size of these distributions to shareholders (Kaplan & Zingales, 1997; Whited & Wu, 2006; Theiri et al., 2023). FC also arises as a result of information asymmetry between owners and investors, which makes funds from outside the company more expensive compared to internal funds. This highlights the need to identify these constraints and understand their impact on the company's returns (Beck et al., 2005; Hale & Santos, 2009; Balafas & Kostakis, 2015; Farre-Mensa & Ljungqvist, 2016).

Buehlmaier and Whited (2018) showed that a trading strategy based on FC measures in debt markets typically achieves higher returns, especially for companies with large publicly traded shares. These companies achieve an annual risk-adjusted return that is 6.5% higher than that of non-listed companies in debt markets. Bao et al. (2012) examine FC by analyzing the relationship between financially constrained companies and their cash flow sensitivity. These companies experience negative cash flow sensitivity when the cash flow environment is positive, and vice versa. When institutional holdings are used to control agency problems, these companies will have better external monitoring and thus avoid acquiring good investment opportunities. This is confirmed by a study of Almeida et al. (2004), which shows that financially constrained firms tend to generate cash from increased cash flows, while financially unconstrained firms do not. This means that the sensitivity of cash flows to cash can be considered a suitable means of classifying firms into constrained and unconstrained, and this is theoretically acceptable and practically useful for analyzing these firms. Conversely, researchers Wan and Zhu (2011) find that firms' tendency to increase cash generation from cash flows, or their increased sensitivity to cash flows, is not associated with financially constrained firms and is not an effective measure of this in light of agency problems that result from information asymmetry.

Cash flows are linked to a company's returns, its ability to distribute dividends, and its ability to determine an appropriate dividend policy. These are influenced by the degree of financial risk that FC generates for companies. Karamat and Kashif (2020) believe that listed companies with large liquid assets achieve higher returns and cash flows than unlisted companies. Financial constraint is an important factor in measuring financial risk and its impact on stock market value. Consequently, investors typically demand higher dividends from listed companies due to the higher risk these companies' assets pose in capital markets (Li & Luo, 2019; Hussain & Akbar, 2022). Most listed companies have large liquid assets, cash flows, and liquidity generated from retained earnings, which makes these companies not need to resort to external financing. Therefore, these restrictions arise due to the size of the company, its capital structure, or changes in the size of cash flows, which negatively affect the value of the company in the capital markets, as a result of the size of the risks and the returns achieved (Livdan et al., 2009; Manoel et al., 2024).

He et al. (2016) studied the impact of the relationship between listed companies and DP, analyzing their ability to access internal or external financing. They found a positive relationship

between FC and DP, as these companies distribute profits to enhance their external financing position. This view is supported by Pathan et al. (2016), Schauer et al. (2019), and Wiersma (2017), which confirms the positive relationship between FC and DP, noting that these companies typically suffer from poorer operating performance compared to non-listed companies in the medium and long term. Most studies are divided into two parts. Some argue that financially constrained companies achieve positive returns, but lower than non-financially constrained companies, such as the studies of Lamont et al. (2001), Whited and Wu (2006). Furthermore, FC helps companies better price their shares (Gomes et al., 2006). Conversely, other studies have shown that financial constraint negatively impacts cash flows and provides an incentive for investors to divest their shares due to the risks they generate in the future (Balafas & Kotakis, 2015). This significantly drives them to emphasize dividends to mitigate these risks, and financially constrained firms respond to this. This explains the positive relationship between FC and DP. Further research is needed to understand the relationship between these two factors.

2.3. Relationship between accounting conservatism and financial constraints

AC mitigates conflicts of interest between shareholders and creditors and helps transfer control of management decisions to bondholders when they face high debt recovery risks. This prevents companies with FC from issuing unjustified dividend distributions to shareholders, as timely recognition of economic losses improves the efficiency of debt covenants and safeguards shareholders' rights (Nikolaev, 2010). Firms with high debt are more vulnerable to investment constraints than those with low debt. Conversely, firms with higher earnings are less likely to be affected by FC, as well as by factors such as size, working capital, and leverage (Ferrando & Mulier, 2015). AC is typically inversely related to FC, as conservatism reduces information asymmetry, which reduces the impact of FC, which in turn leads to lower external financing costs (Feng et al., 2014). FC significantly influences financial decisions such as financing, investment, cash holding, and DP, which arise in situations of information asymmetry, leading to a higher cost of external financing than internal financing. This motivates companies to adopt AC to mitigate FC and reduce risk (Mansali et al., 2019). The high risks facing companies, such as FC, make them more conservative in the future, which explains why most listed companies prefer to maintain high levels of cash to cope with high-cost external financing (Abdel Tawab, 2022).

Listed companies typically adopt less conservative accounting practices than unlisted companies. This avoids disclosing losses in an attempt to secure more external financing. This leads to greater information asymmetry (Demonier et al., 2015), which occurs between transacting parties when one party has more information than the other. AC increases information quality and data consistency. Some studies show that more than 86% of listed companies abandoned attractive investments due to significant risks and concerns about the high cost of external financing, compared to 44% of unlisted companies. AC is one of the most important tools for mitigating the risks associated

with FC and helping listed companies benefit from external financing. Conservatism helps lenders monitor borrowers' repayment capacity more efficiently (Kim et al., 2023).

3. METHODOLOGY

Most investors are interested in short-term returns on their investments, with low expected risks. The researcher noted that industrial companies achieved good profits for the period from 2012 to 2024. However, these companies did not have a clear policy for distributing profits to investors, who are shareholders in the capital of industrial companies. The main reasons, according to what most researchers in previous studies have indicated, are AC or FC on industrial companies' investments. Consequently, 19 industrial companies listed on the Iraq Stock Exchange for the period of 2012–2024 were selected. These companies provide more appropriate data to study conservatism and FC compared to other non-industrial companies affected by the instability of foreign exchange rates. This study aims to examine AC and FC and their impact on the company's dividend distribution policy to shareholders during the study period. The researcher also proposes a method that, along with other financial analysis tools, helps investors study their financial investments and make appropriate decisions in light of their short-, medium-, and long-term objectives. The researcher relied on data published in the market database, consistent with the criteria used in the study, to prove the research hypotheses. Thus, the sample size was 247 observations. Companies that did not provide complete data during the study period, as well as distressed companies, were excluded. This sample included profitable companies during a period that witnessed regular market conditions through the implementation of new industrial and economic laws that regulated investment in the financial market and recorded a state of economic stability. This leads the researcher to believe that the data used in the study does not contain anomalies, especially after the implementation and adherence to international accounting standards and the standardization of data presentation. The researcher identified three hypotheses to verify the study's objective:

H1: There is a statistically significant inverse relationship between accounting conservatism (AC) and dividend policy (DP).

H2: There is a statistically significant direct relationship between financial constraints (FC) and dividend policy (DP).

H3: There is a statistically significant inverse relationship between accounting conservatism (AC), financial constraints (FC), and dividend policy (DP).

To verify the study's objective only, the researcher used a set of models to measure the research variables and prove his hypotheses. The researcher chose these measures because of their fame and the success of their application in research that discussed the research variables. These models are described in the following subsections.

3.1. Accounting conservatism measurement models

The Researcher used four scales to measure AC and study the best one that best explained the research sample. We start with the first scale, developed by Zhang (2008), which will be referred to in the applied aspect of Zhang's research. It measures non-operating accruals by calculating operating accruals less the total change in inventory, accounts receivable, current and future accounts, prepaid expenses, and accrued taxes, divided by total assets, minus cash generated from operating activities. The second scale, developed by Givoly et al. (2007), hereafter referred to as Givoly, measures non-operating accruals by the difference between total accruals and operating accruals. The third scale, which relies on the extent of responsiveness to negative accounting earnings compared to good news and the test of appropriate timing and asymmetry of accounting conservatism, which goes back to Basu (1997), hereafter referred to as Basu. Finally, the fourth measure (Ball & Shivakumar, 2006) measures receivables during the period and their correlation with operating cash flows. This measure will be referred to hereafter as Ball. These measures were chosen due to their popularity and widespread use by researchers. The Researcher chose four measures instead of a single measure due to the lack of consensus among researchers on the best measure. The mathematical formulas for these measures can be viewed in the following equations:

$$AC - Zhang_{it} = non - operating accruals = (operating accruals - \Delta accounts receivable - \Delta inventories - \Delta prepaid expenses + \Delta accounts payable + \Delta taxes payable) \div total assets \quad (1)$$

where:

• operating accruals = net income + depreciation - funds from operations.

$$AC - Givoly_{it} = non - operating accruals = total accruals - operating accruals \quad (2)$$

where:

• total accruals (before depreciation) = (net income + depreciation) - cash flows from operating activities;

• operating accruals = Δ accounts receivable + Δ inventories + Δ prepaid expenses - Δ accounts payable - Δ taxes payable.

$$AC - Basu_{it} = \alpha_1 + \alpha_2 Dr_{it} + B_1 R_{it} + B_2 R_{it} \times Dr_{it} \quad (3)$$

$$AC - Ball_{it} = \beta_0 + \beta_1 DCFO_{it} + \beta_2 CFO_{it} + \beta_3 DCFO_{it} \times CFO_{it} + \varepsilon \quad (4)$$

where:

• $DCFO$ = dummy variable; 0 if $CFO_{it} > 0$ and 1 if $CFO_{it} < 0$.

• CFO = cash flow from operating activities.

3.2. Financial constraints measurement models

There are no definitive factors that determine financially constrained firms, as FC cannot be directly observed. Therefore, the researcher relies on four measures to identify financially constrained firms. The first measure, derived from the study by Whited and Wu (2006), hereafter referred to as WW, diagnoses FC by taking the ratio of cash flows to total assets minus the ratio of long-term debt to total assets multiplied by the natural logarithm of total assets, with industry sales growth and dividend payout added to the model. The second measure, derived from the study by Hadlock and Pierce

(2010), hereafter referred to as HP, diagnoses FC by taking into account the age of the firm and the natural logarithm of total assets. The third measure is based on Cleary (2006), which measures FC using the current ratio minus the fixed charge coverage ratio plus slack multiplied by net income to net sales minus the sales growth rate multiplied by the debt ratio, hereafter CL. Finally, the fourth measure is based on Schauer et al. (2019), which uses variables such as company size, interest

coverage ratio, and cash holdings, hereafter FCP. The researcher chose four measures instead of relying on a single measure because they rely on a combination of different variables and specific mathematical structures to measure FC. This prompted the researcher to test the sample on more than one measure to identify the variables that explain FC in the sample companies. The mathematical equations for these measures can be reviewed as follows:

$$FC - WW_{it} = -0.091 \times CF \text{ to } Ta_{it} - 0.062 \times \text{distributed } CD + 0.021 \times \text{Long-term debt to TA} \quad (5)$$

$$Ratio_{it} = -0.044 \times \log \text{ total assets}_{it} + 0.102 \times \text{Industry sales growth}_{it} - 0.035 \times \text{Company sales growth}_{it} \quad (6)$$

$$FC - HP_{it} = -0.737 \times \ln \text{Size}_{it} + 0.043 \times \ln \text{Size}_{it} - 0.040 \times \text{Age}_{it} \quad (7)$$

$$FC - CL_{it} = 0.0437 \times \text{Current}_{it} - 0.0011 \times \text{FCCov}_{it} + 0.00466 \times \text{Slack}/k_{it} - 0.0122 \times \text{NI}_{it} - 0.1071 \times \text{Sales growth}_{it} + 0.3876 \times \text{debt}_{it} \quad (8)$$

$$FCP_{it} = 0.123 \times \text{Size}_{it} - 0.024 \times \text{Interest coverage}_{it} - 4.404 \times \text{ROA}_{it} - 1.716 \times \text{Cash}_{it} \quad (9)$$

3.3. Dividend policy measurement models

To measure DP, the researcher relies on a set of studies (Ahn et al., 2024; Mandleshwar, 2024; Theiri et al., 2023; Kim et al., 2021; Azeem et al., 2023; Pathan et al., 2016; Falavigna & Ippoliti, 2021) that use a dividend payout ratio measure based on the ratio of annual cash dividends per share to earnings per share. Another method for measuring DP is to assign a score of "1" to companies that distribute cash dividends during the study years and a score of "0" otherwise.

$DP_{it} = 1$ or 0 . When the company distributes cash dividends 1 and otherwise 0.

3.4. Integrating accounting conservatism measures and financial constraints to study their impact on dividend policy

After studying each measure of AC and FC individually, and collecting and analyzing the data, the Researcher combines the data obtained through simple linear regression between the measures (FC-WW and the Zhang, Givoly, Basu, and Ball AC measures) and the dependent variable (DP) as a first step. The goal is to arrive at the best model that integrates the variables that explain the dependent variable (DP). Then, he moves to the second step (the HP FC measure and the Zhang, Givoly, Basu, and Ball measures) and the DP variable. Then, he moves

to the third step (the FC-CL and FCP measures and the Zhang, Givoly, Basu, and Ball measures) and the dependent variable (DP). This is done to test all AC and FC scales that are better able to explain the dependent variable (DP), as the researcher did not identify the best combination to combine the scale variables until after conducting a correlation study between all the scales and arriving at the best possible results that the researcher can rely on to ensure the accuracy of interpreting the policy of the sample industrial companies in distributing profits, and arriving at the fact that all the scales give close results that confirm the research hypotheses.

4. RESULTS AND DISCUSSION

The researcher reviews the results of data analysis in Tables 1–5 and tests the three hypotheses through this section, which consists of four basic stages. The first deals with studying descriptive statistical tests, then studying the relationship between AC and the variable DP to test $H1$, and after that analyzing the results of the relationship between FC and the variable DP to test $H2$, and the last stage, which is concerned with studying the independent variables of the study AC and FC and the extent of their impact on the dependent variable DP to test $H3$.

Table 1. Descriptive statistics for variables

Variable	Mean	Median	Std. dev.
Independent variables (FC measurement models)			
WW	-0.979	-0.982	0.105
HP	3.576	2.797	1.547
CL	0.184	0.001	0.702
FCP	-10.365	-10.822	3.537
Independent variables (AC measurement models)			
Zhang	0.045	0.014	0.175
Givoly	0.931	-0.069	2.672
Basu	0.452	0.386	0.860
Ball	0.934	0.105	2.394
Dependent variable (DP)			
DP	0.875	1	0.353

Source: Table 1, prepared by the researcher, shows summary statistics for the independent and dependent variables in the sample under study.

Table 1 presents descriptive statistics for the sampled industrial companies. The sample size was 247 observations. First, the independent variables in the first group, represented by the FC, FC-WW, FC-HP, FC-CL, and FCP measurement models, were studied. The mean and median for the FC-WW model for the full sample were 0.979 (-0.982). The mean and median for the FC-HP model were 3.576 (2.797). The mean and median for the FC-CL model for the full sample were 0.184 (0.001). Finally, the mean and median for the FCP model for the full sample were -10.365 (-10.822).

The occurrence of negative values for the FC-WW and FCP models is due to the nature of the mathematical formula of the model, which specifies negative values for the constants, compared to positive values for some variables that explain the causes of financial distress, which makes the model better for studying financial constraints. While the FC-HP model focuses on doubling the value of the natural logarithm of the company size, all observations were related to companies with ages of more than 40 years, which gives positive results. As for the FC-CL model, it is due to the value

of the positive constant, which has a greater impact on the values that examine the variables of financial constraints.

Next, the independent variables in the second group, represented by the AC measurement models, were studied. The mean and median results for each of the four models, Zhang, Givoly, Basu, and Ball, for the full sample were 0.045 (0.014), 0.931 (-0.069), 0.452 (0.386), and 0.934 (0.105), respectively. The dependent variable, *DP*, was then studied. This variable measures the percentage of dividends distributed to shareholders during the sample study years, with a score of "1" if dividends were distributed and a score of "0" otherwise. The mean and median results for *DP1* and *DP2* for the full sample were 0.875 (1) and 0.224 (0.101), respectively.

These values show the large variation in the results of the models, which gives the researcher an initial idea of not relying on a single model to study the research sample, as the larger the average values of these models, the more apparent the presence of greater FC, greater accounting conservatism, or greater dividend distributions.

Table 2. Correlation matrix for variables

Variable	Zhang	Givoly	Basu	Ball	FCP	CL	HP	WW	DP
Zhang	1	0.544*	0.760*	0.462	-0.664**	-0.521*	-0.845*	-0.622*	-0.890**
Givoly	0.544*	1	0.417*	0.973**	-0.511*	-0.887*	-0.924**	-0.783*	-0.892**
Basu	0.760*	0.417*	1	0.624	-0.645*	-0.773*	-0.789*	-0.904**	0.704*
Ball	0.462	0.973**	0.624*	1	-0.474*	-0.563	-0.920**	-0.739*	-0.930**
FCP	-0.664**	-0.511*	-0.645*	-0.474*	1	0.582	0.768*	0.639*	0.623*
CL	-0.521*	-0.887*	-0.773*	-0.563	0.582	1	0.765*	0.650	-0.555*
HP	-0.845*	-0.924**	-0.789*	-0.920**	0.768*	0.765*	1	0.737*	0.889**
WW	-0.622*	-0.783*	-0.904**	-0.739*	0.639*	0.650	0.737*	1	-0.735*
DP	-0.890**	-0.892**	0.704*	-0.930**	0.623*	-0.555*	-0.889**	-0.735*	1

Source: Table 2 was prepared by the researcher and displays Pearson's correlation coefficients for all variables of the study sample, which consists of 247 observations.

Note: * correlation is significant at the 0.05 level; ** correlation is significant at the 0.01 level.

In Table 2, we present Pearson's correlation matrix for the variables used in the study. First, the correlations between each of the four FC models: FC-WW, FC-HP, FC-CL, and FCP, are significantly positive. Second, the correlations between each of the four AC models: Zhang, Givoly, BASU, and BALL, are also significantly positive. Third, we find negative correlations between each FC measure and the AC measures. This result suggests that a higher level of AC is associated with a lower level of FC. Some previous studies on FC and AC have demonstrated this negative correlation, as data from sample companies show that higher AC is typically associated with lower FC (Cleary, 2006). Fourth, we observe negative correlations between most of the independent variables (FC and AC measures) and the dependent variable (*DP*), meaning that higher AC leads to lower dividend payouts. Higher FC also leads to lower dividend payouts. The correlation analysis provides first-stage evidence of the relationship between the FC and AC measures and the dependent variable (*DP*). The results of multiple regression analyses of the study variables provide more comprehensive results, which will be discussed in the following paragraph.

In addition to studying FIV to further confirm the existence of the correlation, which appeared between 2.140 to 4.491, which explains the existence of correlation between some model variables at high percentages exceeding the value of three. As for verifying the homogeneity of variance only, the Levene's value appeared at the sig. level. Values ranged between 0.07–0.675, and the highest results achieved were for the FC-HP, FC-WW, FCP, and FC-CL

models, respectively. As for the AC models, they were arranged in the following sequence: Givoly, Basu, Zhang, Ball, which provides evidence of the existence of homogeneity among the research variables.

Table 3. The impact of accounting conservatism on dividend policy

Variables	1. Zhang	2. Givoly	3. Basu	4. Ball
DP	-1.795***	-1.089***	-0.396*	-1.645**
N	247	247	247	247
Adjusted R ²	0.756	0.761	0.721	0.843

Source: Table 3 was prepared by the researcher and presents the regression results testing the relationship (H1).

Note: *, **, and *** indicate statistical significance at 5%, 1%, and 1 per thousand, respectively.

Table 3 shows the results of the Linear regression analysis to test *H1*. Column 1 presents the results of the regression model estimation to examine the relationship between Zhang's scale and *DP*. The coefficient on Zhang's scale is negative (-1.795) and significant at $p < 0.001$, indicating that a higher level of AC is associated with a lower level of dividend payouts as measured by Zhang. This result supports *H1*.

In Column 2, we present the results of the regression model estimation using Givoly's scale and *DP*. The coefficient is negative (-1.089) and significant at $p < 0.001$, indicating that a higher level of AC is associated with a lower level of dividend payouts as measured by Givoly. This result supports *H1*. In Column 3, we report the results of estimating the regression model using Basu's measure. The regression coefficient is negative (-0.396) and

significant at $p < 0.05$, indicating that a higher level of AC is associated with a lower level of dividend payouts as measured by Basu. This result supports *H1*. Finally, in Column 4, we present the results of estimating the regression model using Ball's measure and DP as the dependent variable. The regression coefficient is negative (-1.645) and significant at $p < 0.01$, indicating that a higher level of AC is associated with a lower level of dividend payouts as measured by Ball. The previous table also shows that all AC measures with high R^2 explain the dependent variable by a percentage ranging between 72%–84%. In short, the results indicate a negative relationship between the independent variable AC and the dependent variable DP. This is expected to lead to a lower cost of external capital for the sampled firms.

Table 4. The impact of financial constraints on dividend policy

Variables	1. WW	2. HP	3. CL	4. FCP
DP	-2.279**	-0.114***	-0.059	-0.04
N	247	247	247	247
Adjusted R ²	0.464	0.756	-0.148	0.286

Source: Table 4 was prepared by the researcher and presents the regression results that test the relationship (*H2*).

Note: *, **, and *** indicate statistical significance at 5%, 1%, and 1 per thousand, respectively.

Table 4 shows the results of the regression analysis to test *H2*. Column 1 presents the results of the regression model estimation to examine the relationship between the FC-WW measure and DP. The coefficient on FC-WW is negative (-2.279) and significant at $p < 0.01$, indicating that a higher level of FC is associated with a lower level of dividend payout as measured by FC-WW. This result therefore rejects *H2*.

In Column 2, we present the results of the regression model estimation using the HP and DP measures. The coefficient is negative (-0.114) and significant at $p < 0.001$. We note that R^2 is equal to 0.756, which means that the FC variable using HP explains approximately 75% of the dependent variable. This result rejects *H2*. In Column 3, we report the results of the regression model estimation using the CL measure. The regression coefficient is negative (-0.059), but not statistically significant. Finally, in Column 4, the results of estimating the regression model using the FCP and DP measures are shown. We find that the regression coefficient is negative (-0.04), but it is also not statistically significant. In short, the results indicate that there is a negative relationship between the independent variable FC and the dependent variable DP, which means that *H2* is rejected.

Table 5. The impact of financial constraints on dividend policy

Variables	Ball, WW	Basu, WW	Givoly, WW	Zhang, WW
DP	(-2.976)** (2.042)**	(-1.564)*** (0.973)**	(-9.977)* (-0.295)	(-1.532)** (-0.702)
Sig. model	0.013	0.006	0.018	0.010
Constant	3.078	0.047	-0.158	0.257
N	247	247	247	247
Adjusted R ²	0.981	0.996	0.718	0.745
Variables	Ball, HP	Basu, HP	Givoly, HP	Zhang, HP
DP	(-3.334)* (0.069)	(-0.290)*** (0.054)**	(-5.838)* (0.057)*	(-1.816)*** (-0.006)*
Sig. model	0.012	0.008	0.013	0.019
Constant	-0.017	0.851	-0.035	0.979
N	247	247	247	247
Adjusted R ²	0.873	0.989	0.754	0.710
Variables	Ball, CL	Basu, CL	Givoly, CL	Zhang, CL
DP	(-1.951)* (0.015)**	(-0.189)* (0.001)	(-1.098)*** (0.019)*	(-1.783)*** (-0.025)*
Sig. model	0.015	0.041	0.019	0.019
Constant	0.176	1.137	0.118	0.960
N	247	247	247	247
Adjusted R ²	0.830	0.790	0.715	0.711
Variables	Ball, FCP	Basu, FCP	Givoly, FCP	Zhang, FCP
DP	(-0.925)** (-0.021)*	(-0.143)** (-0.010)	(-1.057)*** (-0.014)**	(-1.717)** (0.004)*
Sig. model	0.012	0.025	0.009	0.019
Constant	-0.052	1.052	-0.018	0.991
N	247	247	247	247
Adjusted R ²	0.875	0.741	0.789	0.710

Source: Table 5 was prepared by the researcher and presents the results of the regression testing the relationship (*H3*).

Note: *, **, and *** indicate statistical significance at 5%, 1%, and 1 per thousand, respectively.

Table 5 shows the results of the regression analysis to test *H3* as follows:

1. The first method presents the results of estimating the regression model to examine the relationship between the independent variables (the WW scale and the Zhang, Givoly, Basu, and Ball scales) and the dependent variable DP. It is noted first that the best model to explain DP to a large extent is the model that combines the WW scale and the Basu scale, as the explanatory power (R^2) reached approximately 99% of the dependent variable, with the remainder attributed to other factors. The explanation for the high percentage is that the researcher relied on the final results of the study of the correlation between the mathematical formulas for both AC and FC, which shows a high correlation for some models that are consistent in the direction of the variables. The inverse

relationship between the independent variables and the dependent variable is evident, as the coefficient of the Basu scale is negative and significant at $p < 0.001$, which is greater than the coefficient of the WW scale, which was positive and significant at $p < 0.01$. Therefore, the Basu scale has a greater impact on explaining the dependent variable DP. This result supports *H3*. Second, the model combining the WW and Ball scales ranked second, with an explanatory power of R^2 accounting for approximately 98% of the dependent variable, with the remainder attributed to other factors. The inverse relationship between the independent variables and the dependent variable is evident, as the coefficient for the Ball scale is negative and significant at $p < 0.01$, which is larger than the coefficient for the WW scale, which was positive and significant at $p < 0.01$. Therefore, the impact of

the Ball scale is greater in explaining the dependent variable DP. This result supports *H3*. Third, and finally, the models combining the WW scale with the Zhang and Givoly scales were less effective in explaining the dependent variable DP than the other models. The explanatory power of R^2 was approximately 71% and 74%, respectively, of the dependent variable, with the remainder attributed to other factors. Furthermore, the WW scale variable is relatively unimportant.

2. The second method presents the results of estimating the regression model to examine the relationship between the independent variables (HP scale and the Zhang, Givoly, Basu, and Ball scales) and the DP variable. It is noted first that the best model that explains DP to a large extent is the model that combines the HP scale and the Basu scale, as the explanatory power R^2 reached approximately 98% of the dependent variable, with the remainder being attributed to other factors. The inverse relationship between the independent variables and the dependent variable is evident, as the Basu scale coefficient is negative and significant at $p < 0.001$, which is greater than the HP scale coefficient, which was positive and significant at $p < 0.01$. Therefore, the Basu scale has a greater impact on explaining the dependent variable DP. Therefore, this result supports *H3*. Second, the model combining the HP and Ball scales ranked second, with an explanatory power of R^2 accounting for approximately 87% of the dependent variable, with the remainder attributed to other factors. The inverse relationship between the independent variables and DP is evident, as the coefficient for the Ball scale is negative and significant at $p < 0.01$, which is larger than the coefficient for the HP scale, which was positive and significant at $p < 0.01$. Therefore, the impact of the Ball scale is greater in explaining the dependent variable DP. This result supports *H3*. Third, and finally, the models combining the HP scale with the Zhang and Givoly scales were less effective in explaining the dependent variable DP than the other models. The explanatory power of R^2 was approximately 71% and 75%, respectively, of the dependent variable, with the remainder attributed to other factors. The HP scale is significant at $p < 0.05$.

3. The third and fourth methods present the results of estimating the regression model to examine the relationship between the independent variables (CL and FCP scales, Zhang, Givoly, Basu, and Ball scales) and the dependent variable DP. First, it is noted that the two methods are similar in explaining the dependent variable R^2 . Second, all the coefficients of the AC scales were negative and relatively significant. These two methods also demonstrated the clear influence of the AC scales and the FC scales in explaining the DP variable. Therefore, this result supports *H3*.

4. The results of interpreting the dependent variable show a high percentage of interpretation when adding the FC variable to the AC variable, which means that AC or FC alone is not sufficient to predict the dividend distribution policy of the sample industrial companies. All mathematical

formulas indicated the existence of a relationship between the variables explaining the dividend distribution policy, with different correlation results achieved by combining mathematical formulas between AC and FC. The main purpose is not to choose a specific model in itself or discover its positives and negatives and the results it provides compared to other models and formulas, but rather to reach an acceptable confirmation to interpret the dividend distribution policy of the sample industrial companies. This was achieved through four models for each of AC and FC, which gave the researcher a sufficient perception of achieving the study objectives.

5. CONCLUSION

This study examines the relationship between AC and FC and their impact on DP. It finds that AC measures have a greater negative impact on DP, as observed in the regression rate of AC compared to FC measures. All AC measures had a negative relationship with DP, meaning that higher conservatism leads to lower dividend distributions. The relative importance of AC measures is higher than that of FC measures for all study cases, as AC better explains the DP of the study sample companies, particularly the Basu and Ball measures. However, a clear increase in the explanatory power of the independent variable is observed, reaching 96% in explaining the dependent variable, especially when FC are added to AC. This indicates that FC play a significant role in explaining the dependent variable, and this role is enhanced when AC is added to it. The study demonstrated that the variables of cash flow ratio, long-term debt ratio, company age, and sales growth rate in the WW and HP measures are the best variables that can explain the FC in the sample companies. These results are very important for investors who focus heavily on companies' ability to distribute dividends and their future growth by analyzing conservatism measures and FC. Furthermore, it is important for standard setters and the International Accounting Standards Board to consider the importance of AC within the conceptual framework of financial reporting. Furthermore, this study is the first, to the researcher's knowledge, to provide a logical explanation for Iraqi companies' dividend distribution policy. It provides an important reference for future studies that can test the research variables on other samples, especially in the financial sectors. Furthermore, it is possible to conduct research to study the impact of AC and FC on the causes of financial distress and failure, which were not covered in this research paper. Although this study explains why companies tend to use AC, which is due to giving lenders and investors a better picture of corporate finance by reducing the impact of FC, which leads to a decrease in their willingness to distribute profits to shareholders, the study has some limitations, represented by the inability to propose a new mathematical formula that links the main variables that explain the dependent variable.

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