IRAQI Academic Scientific Journals

العراقية المجلات الاكاديمية العلمية

University of Kut Journal

ISSN (E): 2616 - 7808 II ISSN (P): 2414 - 7419

www.kutcollegejournal.alkutcollege.edu.iq

k.u.c.j.sci@alkutcollege.edu.iq

Special Issue - The 8th Scientific Conference for Administrative and Economic Sciences - 28 - 29 June 2025

Investigating the Moderating Role of Management Overconfidence on the Relationship Between Financial Distress and Growth Opportunities and Accounting Conservatism in the UAE Stock Market.

Waleed Mohsin Owaid AL- Zubaidi [1] , Naseer Mohammed Azaal [2] , Falih Majid Hassan [3]

Abstract

Conservatism is an action that is used in conditions of uncertainty and limiting management's optimistic behaviors to increase the reliability of financial statements. Financial distress and growth opportunities are among the factors that can improve the level of accounting conservatism. Meanwhile, managers' behavioral characteristics are expected to influence the relationship between financial distress and growth opportunities with accounting conservatism. Therefore, this study aims to investigate the effect of management uncertainty on the relationship between financial distress growth opportunities, and accounting conservatism. The results of this study show that the variables of financial distress and growth opportunities have a positive and significant effect on accounting conservatism. Management overconfidence has no significant effect on the relationship between financial distress and accounting conservatism but it moderates the relationship between growth opportunities and accounting conservatism and has a negative and significant effect on the relationship between them. In other words, those managers with unfavorable financial situations do not have a positive outlook on the future of the company and increase the level of accounting conservatism. Managers of large and growing companies also tend to opt for more conservative accounting practices to minimize their political and social costs. However, overconfident managers are optimistic about the future of the company and reduce the level of accounting conservatism.

Keywords: Accounting Conservatism, Financial Distress, Growth Opportunities, Management Overconfidence

Affiliation of Authors

[1, 2] Department of Business Administration, College of Administration and Economics, University of Kut, Iraq, Al-Kut, Wasit, 52001

[3] Department of Accounting, College of Administration and Economics, University of Kut, Iraq, Al-Kut, Wasit, 52001

[1] Waleedalzabade@gmail.com
[2] naseer.m.azaal@alkutcollege.edu.iq
[3] Frial.Nizamli@alkutcollege.edu.iq

[3] **Corresponding Author**

Paper Info.
Published: Aug. 2025

دراسة الدور المعدّل لثقة الإدارة المفرطة في العلاقة بين الضائقة المالية وفرص النمو والتحفظ المحاسبي في سوق الأسهم بدولة الإمارات العربية المتحدة.

وليد محسن عواد الزبيدي [1] ، نصير محمد عزال [2] ، فالح ماجد حسن [3]

المستخلص

يعدّ التحفظ المحاسبي إجراءً يُستخدم في ظروف عدم التأكد للحد من السلوكيات المتفائلة للإدارة، بهدف زيادة موثوقية البيانات المالية. تُعتبر الضائقة المالية وفرص النمو من العوامل التي يمكن أن تُعزّز من مستوى التحفظ المحاسبي. وفي هذا السياق، من المتوقع أن تؤثر الخصائص السلوكية للمديرين على العلاقة بين الضائقة المالية وفرص النمو من جهة، و التحفظ المحاسبي من جهة أخرى. لذلك، تهدف هذه الدراسة إلى فحص تأثير ثقة الإدارة المفرطة على العلاقة بين الضائقة المالية، وفرص النمو، و التحفظ المحاسبي.
تشير نتائج هذه الدراسة إلى أن متغيري الضائقة المالية وفرص النمو لهما تأثير إيجابي ومعنوي على التحفظ المحاسبي. في المقابل، لا تمتلك ثقة الإدارة المفرطة تأثيراً معنوياً على العلاقة بين الضائقة المالية والتحفظ المحاسبي ، إلا أنها تُعدّل العلاقة بين فرص النمو والتحفظ المحاسبي ، وتؤثر عليها بشكل سلبي ومعنوي.
بعبارة أخرى، فإن المديرين الذين يواجهون أوضاعاً مالية غير مواتية لا يمتلكون نظرة إيجابية تجاه مستقبل الشركة، ويزيدون من مستوى التحفظ المحاسبي. كما يميل مديرو الشركات الكبيرة والنامية إلى اعتماد ممارسات محاسبية أكثر تحفظاً لتقليل تكاليفهم السياسية والاجتماعية. ومع ذلك، فإن المديرين المفرطين في الثقة لديهم نظرة متفائلة تجاه مستقبل الشركة، مما يؤدي إلى خفض مستوى التحفظ المحاسبي.

انتساب الباحثين

[1، 3] قسم ادارة الاعمال، كلية الادارة والاقتصاد، جامعة الكوت، العراق، واسط ، 52001

[2] قسم ادارة الاعمال، كلية الادارة والاقتصاد، جامعة الكوت، العراق، واسط، 52001

[1] Waleedalzabade@gmail.com
[2] naseer.m.azaal@alkutcollege.edu.iq
[3] Frial.Nizamli@alkutcollege.edu.iq

[3] **المؤلف المراسل**

معلومات البحث
تاريخ النشر: آب 2025

الكلمات المفتاحية : التحفظ المحاسبي، الضائقة المالية، فرص النمو، الثقة المفرطة للإدارة

1. Introduction

In predicting unstable economic conditions, company managers should exercise sufficient caution in preparing financial statements. The precautionary measures taken by managers typically involve recognizing expenses and losses more quickly, recognizing revenues and profits more slowly, valuing assets at their lowest value, and valuing liabilities at their highest value. This is referred to as conservatism in accounting [1]. Many factors influence managers to choose conservative accounting methods [1]. One of the factors affecting accounting conservatism is the financial problems of companies, which can encourage managers to reduce the level of accounting conservatism. This is because poor financial conditions of companies can increase the motivation of shareholders to change company managers [2]. Therefore, managers may manipulate financial reports, which are a measure of their performance, to avoid threats from shareholders [3]. Growth opportunities are another factor that affects accounting conservatism. Growing companies, by choosing and applying more conservative accounting practices, lead to reporting net assets below their economic value and creating hidden reserves, resulting in lower profits in the early years of the asset's life and higher profits in later years [4]. Regarding the relationship between financial distress and growth opportunities with accounting conservatism, past researchers have found contradictory results in their empirical examinations [5]. It should be noted that one of the factors contributing to these contradictory findings is the heterogeneity of the sample under study. One factor in the heterogeneity of the sample is the lack of attention to the personal behaviors of the managers of the companies being studied. Overconfidence is one of the important behavioral traits of managers. Overconfident managers, by overestimating the future returns from investment projects, may delay recognizing losses through optimistic estimates in determining the value of current or long-term assets [6]. The study state that overconfidence hurts conservatism, and strong external monitoring will not reduce these negative effects [7]. Given what has been stated, it is expected that in companies with overconfident managers, the relationship between financial distress and growth opportunities with accounting conservatism will be moderated. Therefore, the main issue of this research is whether managers of companies facing financial distress and having growth opportunities use conservative principles and methods in measuring and reporting profits (losses) and assets. If so, do the personal behaviors of the company managers affect the degree of application or non-application of conservative methods? Based on this, this research aims to examine the relationship between financial distress, growth opportunities, and accounting conservatism with the moderating role of managerial overconfidence. Ultimately, the research seeks to determine first, whether financial distress and growth opportunities affect accounting conservatism, and second, whether the impact of financial distress and growth opportunities on accounting conservatism differs in companies with overconfident managers compared to those without. If so, what is the nature of this impact?

In an era where companies face numerous challenges to continue operating in competitive markets and where reducing future uncertainties is highly important, stakeholders, investors, and other users of company reports need high credibility in reports and assurance of information symmetry for making financial decisions. Identifying factors that enhance the credibility of published reports, thereby reducing agency costs and increasing shareholder wealth and company value, is crucial. This can assist stakeholders and decision-makers in planning and implementing various policies. The results of this research can aid investors, creditors, and other stakeholders in ensuring the credibility of financial reports and understanding the true value of the company, thereby assisting in making beneficial economic decisions. Additionally, it can expand the literature and theoretical foundations related to financial distress, growth opportunities, and accounting conservatism, and propose new ideas related to the research topic for future studies. Moreover, the role of managerial overconfidence in the impact of financial distress and growth opportunities on accounting conservatism is a significant topic that has not yet been studied within the country. Therefore, examining this relationship is one of the innovations of this research. In the following sections, the research will present the theoretical foundations and hypotheses, a review of related studies, the research methodology including the population and statistical model and variables used, and finally, the statistical results with hypothesis testing, conclusions, and recommendations.

2. Theoretical Foundations

2.1. Explaining the Relationship between Financial Distress and Accounting Conservatism

According to agency theory, company managers manipulate accounting profits to achieve their benefits and rewards, showing them as higher than reality. This practice contradicts accounting conservatism, which aims to increase the reliability of accounting information because the principle of conservatism suggests that due to managers' opportunism, users of financial statements should not incur losses [8].

Various definitions have been provided for accounting conservatism. The study states that in accounting conservatism, recognizing good news as profit requires more reliable evidence than recognizing bad news as a loss. Some benefits of accounting conservatism include reducing managers' opportunistic motivations to disclose optimistic reports, increasing contract control, reducing litigation costs, and enhancing the credibility of financial reports [9]. The study also found that conservatism negatively affects information asymmetry and can reduce it. The study, a proponent of conservatism, believes that conservatism is one of the most important factors in reducing agency problems and improving the quality of financial reports, thereby increasing a company's value and stock price[10][11].

The study states that one of the factors affecting accounting conservatism is financial distress. Financial distress, due to the financial problems experienced by the company, can be interpreted as an early sign of bankruptcy[12]. Financial problems can encourage shareholders to replace company managers, which in turn can lead to a loss of managers' credibility. The study indicated that companies experiencing financial distress adhere to the principle of conservatism in accounting because they exercise greater caution in predicting future economic conditions[13]. Therefore, financial distress increases the level of accounting conservatism by managers [12].

Additionally, The study state that companies in financial crisis manipulate accounting profits to maintain their credibility with shareholders and increase the security of their managerial positions, which is one of the performance evaluation components [14]. This manipulation leads to a decrease in the level of accounting conservatism. According to signaling theory, financial distress can increase the level of accounting conservatism by managers. The findings of these study support this theory, showing that financial distress has a positive and significant impact on the level of accounting conservatism[15][16]. Based on this, the first hypothesis is formulated as follows:

Based on the theoretical foundations and empirical research, four main hypotheses are proposed as follows:

H1. Financial distress has a positive and significant impact on the level of accounting conservatism.

2.2. Explaining the Relationship between Growth Opportunities and Accounting Conservatism

Another factor affecting accounting conservatism is growth opportunities, which are opportunities for the company to grow in the future [17]. From investors' perspective, a company's growth is a sign of its good condition, and investors expect their investments to yield favorable returns [18]. According to study, the higher the growth rate of companies, the more likely they are to choose conservative accounting methods[19]. The study state that the more growth opportunities a company has, the greater its financial needs will be[20]. The amount of funds required by the company causes managers to apply conservatism principles, minimizing profits to meet the investment budget [21].

The study state that growth opportunities affect accounting conservatism, meaning that companies with increasing growth opportunities apply accounting conservatism principles to reduce profits[22]. Similarly, The study findings indicate that growth opportunities have a positive impact on accounting conservatism[23].

Sales growth is a basis for measuring growth opportunities [24]. Sales growth affects the extent of conservatism through its accrual and market value [25]. High sales growth increases expectations of immediate cash flows, which can affect market conservatism. In other words, a company's sales growth indicates its achievement of high-profit levels, and sales growth is indicative of the company's conservatism [8]. According to The study, sales growth has a positive impact on accounting conservatism[26]. According to signaling theory, it is expected that with increased company investments, the future cash flows of the company will also increase. Companies with high growth rates minimize profit motivation [8]. Based on the presented information, the second hypothesis of the research is stated as follows:

H2. Growth opportunities have a direct and significant impact on accounting conservatism.

2.3. Explaining the Moderating Role of Management Overconfidence on the Relationship Between Financial Distress and Growth Opportunities and Accounting Conservatism

Previous studies claim that managerial overconfidence leads to a decrease in the level of accounting conservatism [27][28].

Overconfidence is a psychological trait that reflects an individual's optimism about the future, and in the context of company management, it indicates management's optimism about the company's future. Overconfident managers are optimistic about their company's future profits and cash flows and have a positive outlook on the company's future returns [29]. As a result, they are less likely to adopt conservative accounting methods [30], and the likelihood of errors in profit reports due to optimistic thinking increases [31]. This trait is likely to lead to earnings management [32]. The study findings show that overconfident managers are more motivated to use future period profits to increase current period profits, indicating a preference for reporting higher profits compared to other managers[33]. The study examined the impact of financial distress and financial leverage on conservatism. The results showed that financial distress and financial leverage have a negative and significant effect on accounting conservatism[34]. The study explored the impact of financial distress and growth opportunities on accounting conservatism with the moderating role of litigation risk [17]. The findings indicated that financial distress and growth opportunities positively and significantly affect accounting conservatism, with litigation risk strengthening the impact of financial distress on conservatism while weakening the impact of growth opportunities on conservatism. The study findings show that financial distress and litigation risk have negative and positive significant effects on accounting conservatism, respectively[35]. However, the impact of conflict of interest on accounting conservatism is negative but not statistically significant. The study found that financial distress and litigation risk have positive and significant effects on accounting conservatism[2], while growth opportunities do not have a significant impact. The results also showed that financial leverage, as a moderating variable, does not significantly affect the relationship between financial distress, litigation risk, and growth opportunities with accounting conservatism. The study concluded that litigation risk has a positive and significant impact on accounting conservatism, while managerial ownership, tax, and political costs, debt obligations, and growth opportunities do not have a significant impact on conservatism[36]. The study investigated factors affecting accounting conservatism[37]. Their findings showed that financial distress and financial leverage have a positive and significant impact, while managerial ownership has a negative and significant impact on accounting conservatism. Investment opportunities do not significantly impact accounting conservatism. The study found that financial distress has a negative and significant impact on accounting conservatism, while financial leverage and managerial ownership do not have a significant impact[38]. The study research results showed that company size and capital intensity have a positive and significant impact on accounting conservatism, while financial leverage, liquidity, and growth opportunities do not have a significant impact on accounting conservatism[39]. In this context, The study found that the likelihood of overconfident managers making forecast errors is higher due to their optimistic outlook on future earnings[40]. Therefore, it is expected that overconfident managers will reduce the level of accounting conservatism and weaken the relationship between financial distress and growth opportunities with the level of accounting conservatism in the company. Based on this, the third and fourth hypotheses of the research are formulated as follows:

H3. Board size has a positive and significant effect on accounting conservatism.

H4. Board independence has a positive and significant effect on accounting conservatism.

Research Methodology

The population of this research consists of companies listed on the stock exchanges of UAE during the years 2016 to 2022. The sampling method employed in this study is purposive sampling, wherein selected companies are chosen from a set of listed companies on the stock exchanges of UAE, based on the constraints outlined in table (1).

Table (1) The number of companies

Companies Listed on the UAE Stock Exchange	Number of Companies
Total number of companies	115
Insurance and Banks	(20)
Insurance institutions	(5)
Non-disclosure of information	(38)
Total sample	52

The fundamental information and primary data required for hypothesis testing are obtained from the databases of and UAE Stock Exchange. The data analysis method employed is cross-sectional and longitudinal (such as panel data). Multivariate linear regression is utilized to assess the hypotheses, while descriptive and inferential statistical techniques are applied to analyze the collected data. To describe the data, the frequency distribution table is utilized. For inferential analysis, the F-Limer test, Hussmann test, normality test, and multiple linear regression tests are conducted to evaluate the research hypotheses

3. Research Model

Equation (1) was used for All Hypothesis.

$$\boldsymbol{Con_{i,t} = \beta_0 + \beta_1 Distress_{i,t} + \beta_2 Growth_{i,t} + \beta_3 MMC_{i,t} + \beta_4 MMC_{i,t} * Distress_{i,t} + \beta_5 MMC_{i,t} * Growth_{i,t} + \beta_6 STDebth_{i,t} + \beta_7 ROA_{i,t} + \beta_8 SGR_{i,t} + \varepsilon_{i,t}} \quad \textbf{(1)}$$

In the above model:

- Con represents accounting conservatism.
- Distress represents financial distress.
- Growth represents growth opportunities.

- MMC represents managerial overconfidence.
- STDebt represents debt maturity.
- ROA represents the return on assets.
- SGR represents the sales growth rate.

The Dependent Variable

CONS: Based on the existing literature, two types of conservatism are discussed: conditional and unconditional. It is expected that balance sheet items reflect asymmetric performance compared to company performance because economic losses are identified more promptly through the process of balance sheet items than profits. Therefore, The study included balance sheet items in their conditional conservatism model[41]. Accordingly, in the current study, the extended model [41], as utilized by The study, was employed to calculate conditional conservatism[42]. The model error term (εi) represents conservatism. It should be noted that this measure is synthetic (proxy) in the current study.

$$TA_{i,t}/A_{i,t-1} = \alpha + \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{\Delta REV_{i,t}}{A_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \beta_4 \frac{CF_{i,t}}{A_{i,t-1}} + \beta_5 \frac{DCF_{i,t}}{A_{i,t-1}} + \beta_6 DCF_{i,t} \frac{CF_{i,t}}{A_{i,t-1}} + \varepsilon_i \qquad (2)$$

In the above model, TA represents total liabilities derived from the difference between operating income and operating cash flow. It also indicates total assets from the previous year. AREVE represents the change in revenue in the current year compared to the previous year. PPE stands for Net Property, Plant, and Equipment. CF represents the ratio of operating cash flow to assets. DCF is a dummy variable, where it takes the value of 1 if operating cash flow is negative, and 0 otherwise. The term "+ε" represents conservatism in financial reporting. To calculate CONS, the error term from model (3) is considered. If this term is negative, it indicates that liabilities are relatively small compared to cash flow, suggesting conservatism. Therefore, if the residual of the model is negative, we assign the value of 1, otherwise 0.

Independent Variable

financial Distress: To identify financially distressed companies, the criteria of Asquith. have been used. According to this criterion, a company is considered financially distressed if, for two consecutive years, its earnings before interest, taxes, and depreciation (EBITDA) are less than its interest expenses, or if in any year, its EBITDA is less than 80% of its interest expenses. If a company meets either of these conditions, it is considered financially distressed and assigned a value of one; otherwise, it is assigned a value of zero. This criterion has been selected as the best method for identifying financially distressed companies based on the research by the study [43].

Growth Opportunities: To measure the variable of growth opportunities, the ratio of market value to book value of equity is used. This measure is both an efficient indicator and allows for comparison of the results of this research with other studies [44]. A higher market-to-book value ratio indicates higher value due to the presence of growth opportunities and vice versa [45].

Moderating Variable:

Managerial Overconfidence: Previous research has shown that investment decisions and optimism about future investment returns are influenced by managerial overconfidence, indicating the overconfidence of the company's management [46]. Therefore, in accordance with the research by [47], the Over-Invest metric, which is related to investment, is used to measure overconfidence. For this purpose, the regression model (relationship 4) is first estimated cross-sectionally, and then the residuals are calculated for each year. If the residual of the model for a company is positive, it indicates that the company has overinvested, and the value of one is assigned to this variable; otherwise, the value of zero is assigned.

$$Asset.Growth_{i,t} = \beta_0 + \beta_1 Sale.Growth_{i,t} + \varepsilon_{i,t} \quad (3)$$

In the above equation, Asset Growth represents the growth of the company's assets in year t, while Sale Growth denotes the growth of company sales in year t, calculated by equations (4) and (5).

$$Asset.Growth_{i,t} = \frac{Asset_{i,t} - Asset_{i,t-1}}{Asset_{i,t-1}} \quad (4)$$

$$Sale.Growth_{i,t} = \frac{Sale_{i,t} - Sale_{i,t-1}}{Sale_{i,t-1}} \quad (5)$$

Control Variables

Debt Maturity: One of the determining factors for accounting conservatism is decisions related to debt maturity. Shorter debt maturities allow for better control by management because shorter debt maturities increase the motivation for renegotiation to extend the debt. Creditors also enter into more precise contracts with the borrower and can decide on extending or changing the contract terms based on the company's performance during the initial period [48]. In this study, debt maturity is measured by the ratio of short-term debt to total debt. The higher the use of short-term debt, the shorter the debt maturity of a company [49].

Return on Assets (ROA): ROA indicates the management's efficiency in using assets to generate profitability. Theoretically, more profitable companies (higher ROA) are better able to practice accounting conservatism compared to other companies. The results of The study show that the higher the profitability index (ROA) of companies, the greater the accounting conservatism. This variable is measured by the ratio of annual profit to total assets [50].

Sales Growth Rate: Sales growth can affect accrual items such as changes in accounts receivable and inventory, thereby having a positive or negative impact on the accrual-based conservatism index. The findings of [51]indicate that the growth and development of a company are directly related to accounting conservatism. Following the research by [52], in this study, growth opportunities are measured as the percentage of net sales growth as equation (6):

$$\frac{NS_{i,t} - NS_{i,t-1}}{NS_{i,t-1}}. \quad (6)$$

4. Results

4.1. Data on Descriptive Statistics

The most important central tendency measure is the mean, which represents the balance point and the center of gravity of the distribution, making it very suitable for indicating data centrality. The level of conservatism in the companies under review averages 0.023%, indicating that most observations of this variable cluster around this point. The standard deviation shows the dispersion of data from the mean, with the highest and lowest standard deviation values belonging to the growth opportunities variable (2.002) and the debt maturity variable (0.122), respectively. Considering that the variables financial distress (Distress) and managerial overconfidence (MMC) are dummy variables (binary), their frequency distribution is presented in table (2) and table (3). Sample statistics indicate that 10% of the companies are financially distressed, while the remaining are not. Additionally, 35% of the companies have overconfident managers, while the rest do not.

Table (2) Descriptive statistics of main variables

		UAE			
variable	***Mean***	***Median***	***Min***	***Max***	***STDV***
Growth	**2.343**	**1.967**	**-2.193**	**9.423**	**2.002**
STDebth	**0.876**	**0.918**	**0.458**	**0.998**	**0.122**
ROA	**0.087**	**0.072**	**0.242**	**0.426**	**0.128**
SGR	**0.213**	**0.163**	**-0.431**	**1.295**	**0.368**

Table (3) Descriptive statistics of qualitative variables

variable	*Status*	*Percentage %*
CONS	**0**	**55.90**
	1	**44.10**
	Total	**100.00**
Distress	**0**	**91.25**
	1	**8.75**
	Total	**100.00**
MMC	**0**	**65.90**
	1	**34.10**
	Total	**100.00**

4.1. Data Analysis and Main Results

Table (4) present the correlation analysis of research variables. The results demonstrate a positive correlation between Distress, Growth with CONS the 99% confidenc level.

Table (4) Correlation analysis of research variables(UAE)

	CONS	Distress	Growth	MMC	STDebth	ROA	SGR
CONS	**1**						
Distress	**0.453**	**1**					

	***					
Growth	**0.567 *****	**-0.090**	**1**			
MMC	**-0.178 ****	**0.279 *****	**-0.140 ***	**1**		
STDebth	**0.337 *****	**-0.032**	**-0.043**	**-0.199 *****	**1**	
ROA	**-0.035**	**-0.003**	**0.210 *****	**0.153 ****	**-0.012**	**1**
SGR	**0.342**	**0.216 *****	**0.019**	**-0.143 ***	**0.034**	**-0.213 *****

*, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Resource: Research findings

To determine the stationarity of the research variables, Levin, Lin, and Chu tests, as well as the Fisher test, were employed. If variables are non-stationary, it can lead to issues such as spurious regression, indicating the presence of unit roots or equivalently, the inability of variables. The results indicated that the probability statistic of the variables during the research period, based on both aforementioned tests at a 95% confidence level, was less than 5% as shown in table (5). Therefore, the stationarity of the variables is confirmed, ensuring that spurious regression issues will not arise as a result..

Table (5): The results of Levin, Lin Veho's unit root test for the analysis of stability

Variable	*p-value*
CONS	0.000
Distress	0.000
Growth	0.000
MMC	0.000
STDebth	0.000
ROA	0.000
SGR	0.000

Before estimating the models related to the research hypotheses, variance heterogeneity and serial correlation between disturbance terms are examined. For this purpose, the modified Wald test is used to detect variance heterogeneity, and the Waldridge test is used to assess serial correlation. The results of the modified Wald test in table (6) indicate the presence of variance heterogeneity among the disturbance terms. Therefore, to address variance heterogeneity in this study's final model fitting, the Generalized Least Squares (GLS) method is utilized. Furthermore, table (6) presents the results of the Waldridge test, which show no evidence of serial correlation issues.

In summary, the study concludes that the research hypotheses are best tested using a panel data approach with a fixed effects model, and the issues of variance heterogeneity and serial correlation have been appropriately addressed in the model specification.

Table (6): Results of Wald adjusted- Waldridge test

Equation	Test	p-value	Result
1	Wald adjusted	0.000	H0 is not rejected (there is endogeneity)
	Waldridge	0.095	H0 is not rejected (there is no endogeneity)

One of the key considerations in selecting the appropriate regression test is identifying whether the data model is a panel data (or longitudinal data) model. For this purpose, the Hausman test was used in this study.

The Hausman test helps to determine whether the fixed effects or random effects model is appropriate for the data as present in table (7). This decision is crucial because it affects the efficiency and consistency of the estimators. Based on the test results, we can decide whether to use a fixed-effects model, a random-effects model, or if neither is appropriate.

Table (7): Results of Brush Pagan- Hasman test

Equation	Test	p-value	Result
1	Brush Pagan	0.000	Panel
	Waldridge	0.003	fixed effects

Since the dependent variable is binary (zero or one), logistic regression has been used. Therefore, there is no need to examine Levene's test, the Hosmer-Leme show test, and the Durbin-Watson statistic for the research model.

Following the tests for variance heterogeneity, serial correlation, and model specification, the regression model is fitted using the results obtained. The findings are presented separately for each hypothesis in table (8).

Table (8): The results of the first model

Variable ($CONS$)	GLS Regression				
	Equation				
	Coef	St d.	St at	P r	V I

		Err	istict	ob	F
Distress	0.035 ***	0.015	2.346	0.000	1.183
Growth	0.004 ***	0.001	2.251	0.024	1.456
MMC	-0.011 *	0.007	-1.676	0.108	1.341
Distress* MMC	-0.004 ***	0.018	-0.217	0.828	2.121
Growth* MMC	-0.006 ***	0.002	-3.244	0.001	2.367
STDebth	0.014	0.028	0.364	0.715	1.083
ROA	-0.728	0.040	-18.078	0.000	1.137

SGR	**0.015**	**0.006**	**2.428**	**0.0151**	**1.231**
_cons	**0.400**	**1.180**	**0.340**	**0.735**	**----**
F Statistic		**12.165(0.000)**			
R^2		**0.684**			
AdjustedR^2		**0.628**			
DW		**2.114**			

As Results of the Impact of Financial Distress and Growth Opportunities on Accounting Conservatism in Firms with Overconfident Managers

The results of the study on the impact of financial distress and growth opportunities on accounting conservatism in firms with overconfident managers are presented in table (8). The statistical significance of the F-statistic (F = 0/000) indicates the overall significance of the model. Thus, the model related to the research hypotheses can explain the relationship between the variables of interest. The adjusted (R^2) shows that the independent and control variables collectively explain approximately 62% of the variation in the dependent variable. Additionally, the Durbin-Watson statistic (2.1147) falls between 1.5 and 2.5, indicating no significant serial correlation among error terms.

Hypotheses One and Two

The first and second hypotheses of the study examine the relationship between financial distress, growth opportunities, and accounting conservatism. Given the regression coefficients of financial distress and growth opportunities on accounting conservatism, which are 0.035 and 0.004 respectively, with p-values less than 5% (0.019 and 0.024), it can be claimed that financial distress and growth opportunities have a direct and significant relationship with accounting conservatism. Therefore, there is no reason to reject hypotheses one and two of the study. It can be concluded that managers of financially distressed firms prioritize environmental uncertainty. Specifically, firms experiencing financial distress tend to increase their level of accounting conservatism. Furthermore, in large and growing firms, the level of accounting conservatism tends to be higher.

Hypotheses Three and Four:

The results of hypothesis three indicate that the effect of managerial overconfidence on the relationship between financial distress and accounting conservatism has a coefficient of 0.004 with a p-value of 0.828, which is higher than the 5% confidence level. Therefore, this effect is not statistically significant at the 95% confidence level, and hypothesis three is not supported. However, managerial overconfidence has a coefficient of -0.006 with a p-value of 0.001, which is higher than the 5% confidence level, indicating a significant negative effect on the relationship between growth opportunities and accounting conservatism. Hence, hypothesis four, which proposes an inverse effect of managerial overconfidence on the relationship between growth opportunities and accounting conservatism, is confirmed at the 95% confidence level

5. Discussion and Conclusion:

The purpose of this study is to investigate the relationship between financial distress and growth opportunities with accounting conservatism and the moderating role of managerial overconfidence in companies listed on the Du Securities Market. For this purpose, companies were classified into two groups based on their investment surplus: companies with overconfident managers and companies without overconfident managers. Based on this classification, four separate hypotheses were formulated and tested using a multivariate panel regression model. According to theory, the sign of managers in financially troubled companies who do not have favorable prospects for the company's future increases the level of accounting conservatism. This aligns with the first hypothesis of the study, which posits that financial distress has a direct and significant relationship with accounting conservatism, consistent with the signaling theory. In other words, companies experiencing financial distress tend to apply conservative principles. This finding is in line with the results of external research, but contradicts the findings of some research, who suggest that financial distress leads to a reduction in accounting conservatism. High levels of financial distress in a company prompt managers to alter their behavior due to poor performance, posing a threat that managers may misrepresent the company's financial reports to show better than actual conditions and reduce accounting conservatism. Thus, legal responsibility and the degree of accountability of managers to shareholders and terms of agreements between managers and shareholders and... in the member companies of the Dubai and Abu Dhabi Exchange. The greater the growth opportunity of a company, the greater the need for the company's required budget. The amount of funds required by the company causes managers to apply conservative principles to secure funding for investment. Also, as research argued, large and growing companies tend to act more conservatively in accounting measurement and reporting to minimize political, social, and regulatory costs, with the second hypothesis of the study that growth opportunities have a direct and significant relationship with accounting conservatism. The conclusion of this hypothesis is consistent with the results of research. It should be noted that in addition to the influence of the specific conditions and situations of companies (financial distress and growth opportunities on their level of accounting conservatism, which were examined in the first and second hypotheses), the different personality and behavioral characteristics of managers can also have a significant impact.

The conclusion of the third hypothesis indicates that the moderating variable of managerial overconfidence has no significant effect on the relationship between financial distress and accounting conservatism. In fact, in the Dubai and Abu Dhabi Market, managers of companies in financial distress make similar decisions regarding the level of accounting conservatism despite having different ethical attitudes. The conclusion of this hypothesis is not consistent with the findings of some research. One reason for rejecting the hypothesis could be that even overconfident managers in financially unfavorable conditions are not optimistic about improving the profitability and financial structure of the company due to economic recession and financial crises and their behavioral characteristics do not affect the reduction of conservatism level. Furthermore, the result of testing the fourth hypothesis indicates that managerial overconfidence has a negative and significant impact on the relationship between growth opportunities and accounting conservatism. In other words, in companies with overconfident managers, the level of accounting conservatism decreases, and managers adopt more optimistic accounting principles to attract investors and obtain more budget for the company. The conclusion of this hypothesis is consistent with the findings of some research.

Based on the testing of hypotheses and the results of the current study, practical recommendations are proposed: shareholders and creditors consider the financial status of the company when investing and try to invest in a company with favorable financial status and structure; therefore, it is recommended to pay attention to the low level of accounting conservatism because part of the favorable financial status of the company may result from non-conservative actions by managers. Also, users of financial statements as a reference for decision-making policies and relevant decisions should pay attention to changes in the trend of accounting conservatism levels of companies. On the other hand, investors, creditors, and other users of financial statements should consider comparative information (such as sales and assets) at different periods of companies that have growth opportunities to adhere to accounting conservatism principles and reserves for investment, and consequently, the company has growth potential. In addition to practical suggestions for future research to expand the theoretical literature of accounting, it is suggested to examine the effect of variables such as the intensity of capital investment, executive compensation plan, market structure, and other factors influencing accounting conservatism that have not been investigated so far. It should be noted that recession and economic boom periods coincide with many economic activities and may affect the financial situation and managers' attitudes in decision-making, so it is suggested to investigate the relationships between variables of this research in recession and economic boom periods and compare their results.

References

[1]. Nugroho, D. A., & Mutmainah, S. (2012). Pengaruh struktur kepemilikan manajerial, debt covenant, tingkat kesulitan keuangan perusahaan dan risiko litigasi terhadap konservatisme akuntansi. Diponegoro Journal of Accounting, 1(1), 1-13.

[2]. Yusnaini, Y. (2019). The Effect of Financial Distress, Litigation Risk, and Growth

Opportunities on Accounting Conservatism with Leverage as Moderning in Manufacturing Companies Listed in Indonesia Stock Exchange. International Journal of Public Budgeting, Accounting and Finance, 2(3), 1-13.

[3]. Pranmudita, A., Givoly, D., & Hayn, C. (2012). The changing time-series properties of earnings, cash flows and accruals: Has financial reporting become more conservative?. Journal of accounting and economics, 29(3), 287-320.

[4]. Meshki, M., & Elahi Rodposhti, S. (2014). Accounting Conservatism and the Value of Cash Holdings. Empirical Research in Accounting, 4(3), 23-43. [In Persian]

[5]. Fitriani, A. (2020). Pengaruh Financial Distress Dan Leverage Terhadap Konservatisme Akuntansi Pada Perusahaan Retail di Indonesia. Equilibrium: Jurnal Ekonomi-Manajemen-Akuntansi, 16(2), 82-93.

[6]. Ramsheh, M., & Molanzari, M. (2014). Managerial Overconfidence and Accounting Conservatism. Journal of Knowledge Accounting, 5(16), 55-79. [In Persian]

[7]. Ahmed, A. S., & Duellman, S. (2013). Managerial overconfidence and accounting conservatism. Journal of Accounting Research, 51(1), 1.30.

[8]. Humaeroh, S. (2016). The Effect of Good Corporate Governance, Growth Opportunities and Sales Growth to Accounting Conservatism (Bachelor's thesis, Jakarta: Fakultas Ekonomi dan Bisnis UIN Syarif Hidayatullah Jakarta).

[9]. Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: comparative loss recognition timeliness. Journal of accounting and economics, 39(1), 83-128.

[10]. LaFond, R., & Watts, R. L. (2008). The information role of conservatism. The Accounting Review, 83(2), 447-478.

[11]. L. Watts's (2003) *"Conservatism in Accounting Part I: Explanations and Implications,"* , *Accounting Horizons* (Vol. 17, No. 3, pp. 207–221).

[12]. Setyaningsih, H. (2008). The effect of corporate financial distress on accounting conservatism. Journal of Accounting and Investment, 9(1), 91-107.

[13]. Risdiyani, F., & Kusmuriyanto, K. (2015). *Analisis Faktor-Faktor yang Mempengaruhi Penerapan Konservatisme Akuntansi*. Accounting Analysis Journal, 4(3), 1–10.

[14]. Suryandari, E., & Priyanto, R. E. (2011). Pengaruh Risiko Litigasi dan Tingkat Kesulitan Keuangan Perusahaan Terhadap Hubungan Antara Konflik Kepentingan dan Konservatisme Akuntansi. Journal of Accounting and Investment, 12(2), 161-174.

[15]. Givoly, D., Pranmudita, A., & Hayn, C. (2012). The changing time-series properties of earnings, cash flows and accruals: Has financial reporting become more conservative?. Journal of accounting and economics, 29(3), 287-320.

[16]. Sari, W. P. (2020). The Effect of Financial Distress and Growth Opportunities on Accounting Conservatism with Litigation Risk as Moderated Variables in Manufacturing

Companies Listed on BEI. Budapest International Research and Critics Institute (BIRCI- Journal): Humanities and Social Sciences, 3(1), 588-597.

[17]. Hsieh, T. S., Bedard, J. C., & Johnstone, K. M. (2014). CEO overconfidence and earnings management during shifting regulatory regimes. Journal of Business Finance & Accounting, 41(9-10), 1243-1268.

[18]. Novikasari, T., Ritonga, K., & Sofyan, A. (2014). Analisis faktor-faktor yang mempengaruhi penerapan konservatisme dalam akuntansi (studi pada perusahaan manufaktur yang terdaftar di bursa efek indonesia periode 2009-2011). Jurnal Online Mahasiswa (JOM) Bidang Ilmu Ekonomi, 1(1), 1-19.

[19]. Widya, W. (2005). Analisis Faktor-faktor yang Mempengaruhi Pilihan Perusahaan terhadap Akuntansi Konservatif. The Indonesian Journal of Accounting Research, 8(2). 138-157.

[20]. Holiawati., & Resty, J. (2017). Tax Incentives, Growth Opportunities and Size of Companies with Conservatisme Accounting Applications. International Journal of Scientific Research in Science and Technology (IJSRST), 3(3), 586-591.

[22]. Deslatu, S., & Susanto, Y. K. (2018). Pengaruh Kepemilikan Managerial, Debt Covenant, Litigation, Tax and Political Costs dan Kesempatan Bertumbuh terhadap Konservatisma Akuntansi. EKUITAS (Jurnal Ekonomi dan Keuangan), 14(2), 137-151.

[23]. Sari, W. P. (2020). The Effect of Financial Distress and Growth Opportunities on Accounting Conservatism with Litigation Risk as Moderated Variables in Manufacturing Companies Listed on BEI. Budapest International Research and Critics Institute (BIRCI- Journal): Humanities and Social Sciences, 3(1), 588-597.

[24]. Pietro, F, D., Sánchez, M, J. and Roldán, J, L. (2017). Regional development and capital structure of SMEs. Cuadernos de Gestion, 18 (1), 37-60. Pramudita, N. (2012).

[25]. Ahmed, A. S., & Duellman, S. (2007). Accounting conservatism and board of director characteristics: An empirical analysis. Journal of accounting and economics, 43(2-3), 411-437.

[26]. Padmawati, I. R., & Fachrurrozie, F. (2015). The Effect of Good Corporate Governance Mechanisms and Audit Quality on the Level of Accounting Conservatism Accounting Analysis Journal, 4(1), 1-11.

[27]. Hwang, K., Cha, M., & Yeo, Y. (2015). Does managerial overconfidence influence on financial reporting?: The relationship between overinvestment and conditional conservatism. Review of Integrative Business and Economics Research, 4(1), 273.

[28]. Duellman, S., Hurwitz, H., & Sun, Y. (2015). Managerial overconfidence and audit fees. Journal of Contemporary Accounting & Economics, 11(2), 148-165.

[29]. Malmendier, U., & Tate, G. (2005). Does overconfidence affect corporate investment? CEO overconfidence measures revisited.

European financial management, 11(5), 649-659.

[30]. Ahmed, A. S., & Duellman, S. (2013). Managerial overconfidence and accounting conservatism. Journal of Accounting Research, 51(1), 1.30.

[31]. Schrand, C. M., & Zechman, S. L. (2012). Executive overconfidence and the slippery slope to financial misreporting. Journal of Accounting and Economics, 53(1-2), 311-329.

[32]. Asadi Moshizi, M., Hajiha, Z., & Jafari, S, M. (2020). Modeling the factors affecting conservatism in companies. Financial accounting and auditing research, 12(47), 139-167. [In Persian]

[33]. Bouwman, C. H. (2014). Managerial optimism and earnings smoothing. Journal of Banking & Finance, 41, 283-303.

[34]. Fatmariani, F. (2013). Pengaruh Struktur Kepemilikan, Debt Covenant Dan Growth Opportunities Terhadap Konservatisme Akuntansi Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. Jurnal Akuntansi, 1(1), 1-20.

[35]. Sholikhah, R. M. A., & Suryani, A. W. (2020). The Influence of the Financial Distress, Conflict of Interest, and Litigation Risk on Accounting Conservatism. KnE Social Sciences, 222-239.

[36]. Deslatu and Susanto (2018), "Pengaruh Kepemilikan Managerial, Debt Covenant, Litigation, Tax and Political Costs dan Kesempatan Bertumbuh terhadap Konservatisma Akuntansi." EKUITAS (Jurnal Ekonomi dan Keuangan), vol. 14, no. 2, 2017, p.137.

[37]. Sugiarto, H. V. S., & Fachrurrozie, F. (2018). The determinant of accounting conservatism on manufacturing companies in Indonesia. Accounting Analysis Journal, 7(1), 1-9.

[38]. Fitri, G. A. (2017). Analisis Pengaruh Financial Distress, Leverage dan Kepemilikan Manajerial Perusahaan terhadap Penerapan Konservatisme dalam Akuntansi (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2011- 2015) (Doctoral dissertation, Universitas Negeri Padang).

[39]. Susanto, B., & Ramadhani, T. (2016). Faktor-faktor yang memengaruhi konservatisme (studi pada perusahaan manufaktur yang terdaftar di BEI 2010-2014). Jurnal Bisnis Dan Ekonomi, 23(2), 142-151. Watts, R. L. (2003). Conservatism in accounting part I: Explanations and implications. Accounting horizons, 17(3), 207-221.

[40]. Schrand, C. M., & Zechman, S. L. C. (2012). *Executive overconfidence and the slippery slope to financial misreporting*. Journal of Accounting and Economics, 53(1–2), 311–329.

[41]. Ball, R., & Shivakumar, L. (2006). "The role of accruals in asymmetrically timely gain and loss recognition." *Journal of Accounting Research*, 44(2), 207-242.

[42]. Zhang, J., et al. (2019). "Conditional conservatism and firm investment efficiency."

Journal of Accounting and Economics, 67(1), 1-23.

[43]. Ali akbarlou, A., Mansourfar, Gh., & Ghayour, F. (2020). Comparing the Identifying Criteria for Financially Distressed Companies using Logistic Regression and Artificial Intelligence Methods. Financial Management Perspective, 10(29), 147-166. [In Persian]

[44]. Sinaiee, H., Solgi, M., & Mohamadi, K. (2012). The Effect of Growth Opportunities on Relationship between Capital Structure, Dividend and Ownership Structure with Firm Value. Journal of Financial Accounting Research, 3(4), 87-102. [In Persian]

[45]. Cuervo, A. (2002). Corporate governance mechanisms: A plea for less code of good governance and more market control. Corporate Governance: An International Review, 10(2), 84-93.

[46]. Duellman, S., Hurwitz, H., & Sun, Y. (2015). Managerial overconfidence and audit fees. Journal of Contemporary Accounting & Economics, 11(2), 148-165.

[47]. Mehrani, S., & Taheri, M. (2018). Managerial Overconfidence and Earning Forecast Errors. Empirical Research in Accounting, 7(4), 147-164. [In Persian]

[48]. Sheri Anaqiz, S., & Hasani Alqar, M. (2018). An Examination of the Effect of the Debt Maturity Structure on Accounting Conservatism. Accounting and Auditing Studies, 7(26), 17-30. [In Persian]

[49]. Huang, R., Tan, K. J. K., & Faff, R. W. (2016). CEO overconfidence and corporate debt maturity. Journal of Corporate Finance, 36, 93-110.

[50]. Salehi, M., & Yosefi, S. (2016). The Relationship between Capital Structure and Return on Assets, with an Emphasis on Inflation Caused by Governme Decision Makings.Financial Management Strategy,4(1), 37-57. [In Persian]

[51]. Nikoomaram, H., & Banimahd, B. (2008). Specification and Development a Model for Estimating of Accounting Conservatism in Iran. Future study Management, 19(77), 1-16. [In Persian]

[52]. Heidari, M., Mansourfar, G., & Ghasemzade, M. (2018). Earning Volatility and Capital Structure Decisions considering the Moderating Role of Financial Distress; A Structural Equations Modeling Approach. Financial Research Journal, 20(2), 227-248. [In Persian]