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HOW DOES INFLATION RESHAPE ACCOUNTING CONSERVATISM PRACTICES?

Keywords: accounting conservatism, inflation, economic pressures, company characteristics.

J E L Classification: M41, E31, E32, L25.

Abstract: The aim of this study is to analyze the impact of inflation rates on the level of accounting conservatism in non-financial Algerian companies, and to highlight how these companies respond to economic pressures in an environment characterized by volatility and uncertainty, through testing the hypothesis of a positive and statistically significant effect of inflation on accounting conservatism. The study relied on a sample of 120 Algerian non-financial companies over the period 2012–2023, resulting in unbalanced panel data with a total of 1,412 observations. Pooled regression was used to examine the effect of company specific characteristics, while the fixed effects model was employed to introduce inflation as a moderating variable. The results indicate a positive effect of inflation that reshapes accounting conservatism practices, showing that companies do not apply conservatism as a static policy, but rather as a dynamic behavior.

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ior for managing systemic risks. Highly leveraged companies or those facing bankruptcy risk tend to adopt higher levels of conservatism during inflationary periods to mitigate uncertainty and enhance financial credibility.

■■■ INTRODUCTION

Financial reports are considered a fundamental pillar upon which stakeholders rely in making economic decisions, which requires achieving a high quality of financial information by adequate adoption of accounting principles that govern their preparation. Among these principles, accounting conservatism stands out as one of the oldest and most significant concepts in accounting thought. Since the early 20th century, it has been viewed as an essential attribute of useful accounting information (Geimechi & Khodabakhshi, 2015) and as synonymous with the notion of prudence advocated by early pioneers (Jabbar, 2019). The quality of financial information constitutes the cornerstone of rational decision-making by various interested parties, including investors, creditors, and regulatory bodies.

The importance of accounting conservatism lies in its role as a fundamental attribute for useful financial information, emphasizing the immediate recognition of expected losses while deferring the recognition of profits until they are actually realized (Bliss, 1924). This approach has been supported by international bodies such as the FASB and IASB, in order to prevent overstatement of assets and revenues and enhance the faithful representation of financial statements (Zhang, 2008; Wang, 2009). Nevertheless, the application of this principle faces complex challenges arising from macroeconomic changes, most notably inflation. In environments characterized by a persistent rise in the general price level, historical cost accounting loses its ability to provide reliable information, leading to a widening gap between the book values and market values of assets (Esfandabad & Jahanshahi, 2018; Wadesango & Nyakuya, 2025).

Accounting literature points to a close relationship between inflation and conservatism; economic uncertainty compels companies to adopt more cautious policies to protect shareholders' interests and preserve capital (Khalid, Faisal & Khan, 2021; Hejranijamil, Hejranijamil & Shekarkhah, 2020). This relationship becomes particularly significant when considering the Algerian economy, which faces structural inflationary challenges exacerbated by excessive reliance on the hydrocarbon sector and unconventional financing following the 2014 petroleum crisis (Kori, 2020; Lecheheb, 2024).

In this context, the effectiveness of applying the conservatism principle encounters major challenges due to volatile economic conditions, including inflation, which erodes the purchasing power of the currency and creates an increasing gap between book values and the real economic valuations of assets (Wadesango & Nyakuya, 2025). Studies indicate a positive relationship between inflation rates and the level of accounting conservatism, which motivates companies to adopt more cautious accounting policies as a means of mitigating risks and safeguarding capital (Esfandabad & Jahanshahi, 2018; Hejranijamil et al., 2020).

The present study aims to analyze the impact of inflation rates on the level of accounting conservatism in Algerian companies, highlighting how companies respond to these economic pressures in an environment marked by volatility and uncertainty. The significance of this study lies in providing empirical evidence from a developing economy facing unique inflationary challenges, thereby contributing to understanding the diverse effects of macroeconomic conditions on accounting conservatism practices and offering valuable insights for investors, financial analysts, and economic policymakers in Algeria.

LITERATURE REVIEW

Accounting conservatism is considered one of the oldest accounting principles and a prominent feature of financial reporting. It has been the subject of debate since the early 20th century, being regarded as a fundamental characteristic of useful accounting information (Geimechi & Khodabakhshi, 2015). Early accounting pioneers used the term “prudence” as a synonym for conservatism in financial reporting (Jabbar, 2019). Bliss (1924) proposed the modern concept of conservatism through the principle of prudence, emphasizing the necessity of anticipating all potential losses and expenses, while prohibiting the recognition of any expected profits or revenues, even if certain until they are actually realized.

International accounting bodies have widely adopted this principle. For instance, the Financial Accounting Standards Board (FASB) in the United States defined conservatism as the tendency to adopt less optimistic estimates when measuring and recognizing expected amounts. Similarly, the International Accounting Standards Board (IASB) highlighted the need for a degree of prudence when making accounting estimates under conditions of uncertainty (Wang, 2009; Nguyen, Nguyen & Pham, 2022). The literature shows that adopt-

ing conservatism helps avoid overstatement of assets and revenues, and understatement of liabilities and expenses, thereby enhancing neutrality in accounting policies (Kimouche, 2021). Given its importance, International Accounting Standard 1 (IAS 1) requires the application of conservatism when preparing financial statements under uncertainty, ensuring a more accurate representation of economic reality.

Inflation is defined in the economic literature as a sustained increase in the general level of prices for a wide range of goods and services within a given economy over an extended period of time. It is viewed as an economic phenomenon reflecting an imbalance between the growth of the money supply and the economy's productive capacity, where the rate of monetary expansion exceeds the amount of newly produced goods and services during the same period (Adegbite, 2019). In an inflationary environment, accounting faces fundamental challenges, as historical cost accounting loses its ability to provide reliable information (Wadesango & Nyakuya, 2025). Inflation creates a wide gap between the book values of assets and liabilities and their market values, leading to negative effects on qualitative characteristics such as relevance and comparability of financial information. To address this issue, International Accounting Standard 29 (IAS 29) requires restating financial statements using price indices and current valuations to reflect the true financial position of companies. This adjustment provides investors with a stronger basis for decision-making and offers a clearer picture of a company's operating results. Periodic asset revaluations using dynamic methods, such as fair value measurement, become essential to maintain the credibility of book values (Wadesango & Nyakuya, 2025).

The literature reveals a consensus that inflation positively influences the level of accounting conservatism, as companies tend to adopt more cautious policies under such conditions. Esfandabad and Jahanshahi (2018) and Khalid et al. (2021) found that higher inflation rates increase the nominal value of assets, prompting companies to be conservative in recognizing them. Hejrani-jamil et al. (2020) further argued that inflation heightens uncertainty, leading companies to adopt more conservative accounting practices as a risk management response and to strengthen investor confidence.

Inflation represents one of the most pressing economic challenges in Algeria, where persistent price increases erode purchasing power and hinder economic growth (Kori, 2020). The Algerian economy, closely tied to the hydrocarbon sector, has faced recurrent crises due to declining oil prices, prompting the

government to resort to unconventional financing. This approach has raised concerns about accelerating inflation and threatening the stability of the Algerian Dinar (Lecheheb, 2024). Imported inflation is also a major source of inflationary pressures, exacerbating the difficulties faced by citizens, particularly those with fixed or low incomes. Consequently, controlling inflation remains a vital issue that requires effective political and economic strategies to achieve sustainable development beyond reliance on oil.

Based on the theoretical framework that highlights the challenges inflation poses to financial reporting, and the findings of previous studies that demonstrated a positive relationship between inflation and accounting conservatism, the main hypothesis of this study can be formulated as follows:

Hypothesis: There is a statistically significant positive effect of the inflation rate on the level of accounting conservatism in Algerian companies.

METHODOLOGY

This section presents the sample, model specification, and variable measurement.

Sample Selection

Within the methodological framework, the study focused on Algerian companies outside the financial sector. A purposive sample of 120 firms across strategic sectors was selected (services, food industries, pharmaceutical industry, energy, and public works and construction), and the database was built using annual financial statements from 2012 to 2023. This produced an unbalanced panel of 1,412 observations, providing sufficient degrees of freedom to ensure accurate and reliable multiple regression estimates, exceeding the minimum standards required in applied studies.

Model Specification

This study relied on two models to analyze the relationship between the level of accounting conservatism, inflation, and the economic factors specific to the studied companies, while taking into account a set of control variables. The first model represents a regression equation aimed at measuring the impact of explanatory variables, represented by the company's specific economic condi-

tions, on the dependent variable, which is the level of accounting conservatism, after controlling for the effect of some variables, as shown in equation (1).

$$CONS_{it} = \alpha_0 + \alpha_1 ROA_{it} + \alpha_2 ROE_{it} + \alpha_3 SGWT_{it} + \alpha_4 LIQUI_{it} + \alpha_5 LEV_{it} + \alpha_6 ZSCORE_{it} + \alpha_7 TAX_{it} + \alpha_8 SIZE_{it} + \alpha_9 PROP_{it} + \alpha_{10} SEC_{it} + \varepsilon_{it} \quad (1)$$

Where the variables are indicated as follows:

ROA: Return on assets

ROE: Return on equity

SGWT: Company growth level

LIQUI: Liquidity level

LEV: Financial leverage level

ZSCORE: Bankruptcy risk level

TAX: Tax payments

SIZE: Company size

PROP: Nature of ownership

SEC: Economic activity sector

α_0 : is a constant

$\alpha_1, \alpha_2, \alpha_3, \dots, \alpha_{10}$: are the regression coefficients of the model

As for the second model, it expresses the same relationship between the dependent variable, the explanatory variables, and the control variables, except that the inflation rate is introduced as an interactive variable to test the moderating role of inflation on the nature and strength of the relationship between the economic conditions specific to companies and the level of accounting conservatism, as shown in equation (2).

$$CONS_{it} = \alpha_0 + \alpha_1 ROA_{it} + \alpha_2 ROE_{it} + \alpha_3 SGWT_{it} + \alpha_4 LIQUI_{it} + \alpha_5 LEV_{it} + \alpha_6 ZSCORE_{it} + \alpha_7 TAX_{it} + \alpha_8 SIZE_{it} + \alpha_9 PROP_{it} + \alpha_{10} SEC_{it} + \alpha_{11} ROA_{it} * INF_t + \alpha_{12} ROE_{it} * INF_t + \alpha_{13} SGWT_{it} * INF_t + \alpha_{14} LIQUI_{it} * INF_t + \alpha_{15} LEV_{it} * INF_t + \alpha_{16} ZSCORE_{it} * INF_t + \alpha_{17} TAX_{it} * INF_t + \alpha_{18} SIZE_{it} * INF_t + \alpha_{19} PROP_{it} * INF_t + \alpha_{20} SEC_{it} * INF_t + \varepsilon_{it} \quad (2)$$

Where:

INF: Inflation level.

Variables Measurement

The study's hypotheses testing was based on a set of variables that were adapted and measured according to theoretical frameworks and leading empirical studies in accounting literature.

The Dependent Variable (Accounting Conservatism)

To measure the level of accounting conservatism, the study adopted the non-operating accruals model, also known as the negative accruals model. This approach is based on the hypothesis that accounting conservatism leads to accelerating the recognition of losses and delaying the recognition of gains, which generates negative accruals over time. This variable is calculated by subtracting operating accruals from total accruals, where negative values indicate the presence of conservative practices. To ensure measurement accuracy and account for differences in activity volume between companies, the non-operating accruals measure was adjusted by the period result weighted by the total assets as follows:

$$CONS_{it} = NA_{it} * NT_{it} / A_{it} \quad (3)$$

Where:

CONS: Level of accounting conservatism

NA: Non-operating accruals (negative accruals)

NT: Net period result

A: Total assets

Independent and Control Variables

Inflation: The inflation variable is measured by tracking annual inflation rates in Algeria.

Financial Leverage: Ratio of debt to assets, reflecting financial structure and credit risk.

Profitability: Evaluated through Return on assets (ROA) and return on equity (ROE).

Bankruptcy risk: Measured using the modified Altman Z-Score (1995), classifying firms into safe, distressed, or grey zone.

Tax payments: Ratio of tax burden to assets, calculated as:

$$\text{Tax Payment} = \frac{(\text{pre tax income} - \text{Net Income})}{\text{Assets}}$$

Liquidity: Cash to total assets ratio, reflecting short term solvency.

Company size: Natural logarithm of total assets.

Activity sector: Nominal variable coded from 1 to 5, covering five strategic sectors.

Nature of ownership: Dummy variable (1 for private firms, 53.47%; 0 for public firms, 46.53%).

DATA ANALYSIS AND RESULTS

Descriptive Statistics

Table 1 reports the descriptive statistics of the study variables based on 1,412 observations. Measures of central tendency reveal notable dispersion between mean and median values. Indicators (ROA, ROE, SGWT) show higher means (0.0571, 0.0878, and 0.1098, respectively) than medians (0.0394, 0.0704, and 0.0536, respectively), indicating positive skewness. Conversely, accounting conservatism (CONS) records a negative mean (-0.0845) lower than its median (-0.0355), reflecting negative skewness driven by extreme values. Company size (SIZE) demonstrates close alignment between mean and median, suggesting an approximately symmetric distribution, consistent with the use of logarithmic transformation to mitigate outliers. Leverage (LEV) shows relative proximity between mean and median with slight positive skewness, while bankruptcy risk (Z-Score) exhibits near symmetry. Regarding dispersion, high standard deviations for (CONS), (SGWT), and (LIQUI) highlight substantial heterogeneity among firms. Finally, the Jarque-Bera test confirms that all variables deviate from normality, with significant results at the 1% level, reinforcing the evidence of non-Gaussian characteristics in the dataset.

Table 1. Descriptive Statistics Results

CONS	ROA	ROE	SGWT	LIQUI	LEV	ZSCORE	TAX	SIZE	PROP	SEC	INFL	
Mean	-0.0845	0.0571	0.0878	0.1098	0.6211	0.5916	–	0.0146	9.6717	–	–	0.0549
Median	-0.0355	0.0394	0.0704	0.0536	0.1598	0.5820	–	0.0060	9.6850	–	–	0.0480
Maximum	0.9165	2.6516	6.7204	16.322	24.047	6.2638	3	2.6537	13.225	1	5	0.0930
Minimum	-17.717	-0.8070	-4.2418	-0.9975	0.0000	0.0044	1	-0.8846	7.2926	0	1	0.0200
Std. Dev.	0.6281	0.1463	0.4776	0.6145	1.2368	0.3730	0.9066	0.1039	1.0070	0.4990	1.4027	0.0256
Jarque-Bera	23,897,488	635,890	401,493	7,130,499	639,687	177,141	186.99	10,065,715	30.477	235.19	97.402	116.80
Probability	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Observations	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412

Source: based on Eviews 13.

Correlation Analysis

The correlation matrix shows that the relationship between accounting conservatism (CONS), inflation (INFL), and other independent variables is weak and insignificant, indicating that conservatism is not driven by a single factor but by the interaction of financial, institutional, and macroeconomic elements. For inflation, the correlation is positive but very small (0.025) and insignificant, meaning inflation does not directly shape conservatism practices; its effect emerges through interaction with firm-specific characteristics, as confirmed later by regression results.

Similarly, correlations with (ROA), (ROE), (SGWT), (LIQUI), (LEV), and (Z-Score) are weak and insignificant, despite their significance in multivariate models. This divergence highlights that their impact arises only after controlling for other factors, reflecting the conditional nature of conservatism. Institutional variables such as company size (SIZE), ownership (PROP), and sector (SEC) also show limited and insignificant correlations, suggesting they influence conservatism indirectly or under specific economic conditions. This reinforces the role of macroeconomic factors especially inflation in shaping how firms respond to internal characteristics when determining accounting conservatism.

Table 2. Correlation Analysis

Correlation Probability	CONS	ROA	ROE	SGRWT	LIQUI	LEV	INFL	ZSCORE	TAX	SIZE	PROP	SEC
CONS	1.000 -----											
ROA	-0.008 0.770	1.000 -----										
ROE	-0.022 0.399	0.334 0.000	1.000 -----									
SGRWT	0.018 0.502	0.069 0.009	-0.06 0.023	1.000 -----								
LIQUI	-0.005 0.859	0.232 0.000	0.054 0.044	0.011 0.672	1.000 -----							
LEV	-0.043 0.110	-0.396 0.000	-0.001 0.982	0.015 0.0560	-0.317 0.000	1.000 -----						
INFL	0.025 0.346	-0.051 0.057	-0.030 0.258	0.067 0.012	-0.014 0.587	-0.011 0.694	1.000 -----					
Z_SCORE	0.006 0.819	0.270 0.000	0.042 0.115	-0.006 0.822	0.492 0.000	-0.430 0.000	0.011 0.708	1.000 -----				
TAX	0.003 0.902	0.078 0.003	0.017 0.525	0.035 0.184	0.037 0.163	-0.038 0.149	0.020 0.464	0.091 0.001	1.000 -----			
SIZE	0.024 0.363	0.006 0.835	-0.028 0.297	-0.008 0.766	0.070 0.008	-0.193 0.000	0.015 0.551	0.100 0.000	0.009 0.709	1.000 -----		
PROP	-0.032 0.232	0.160 0.000	0.125 0.000	0.002 0.950	-0.099 0.000	0.026 0.319	-0.004 0.877	-0.051 0.057	0.019 0.486	-0.437 0.000	1.000 -----	
SECTOR	-0.057 0.998	-0.125 0.000	-0.052 0.053	-0.047 0.081	-0.131 0.000	0.020 0.450	0.002 0.929	0.038 0.149	-0.012 0.651	0.154 0.000	-0.343 0.000	1.000 -----

Source: based on Eviews 13.

Stationary Test

The results reported in table 3 indicate that all variables are stationary at the level $I(0)$. This conclusion is evidenced by the rejection of the null hypothesis of a unit root for most variables across the majority of tests at the 1% level. The robustness of this finding is confirmed through a set of complementary tests with differing assumptions. Specifically, the Levin, Lin and Chu (LLC) test assumes a common unit root process, whereas the Im, Pesaran and Shin (IPS), ADF-Fisher, and PP-Fisher tests allow for heterogeneous unit root processes across cross-sectional units.

The stationarity of the variables implies that both their mean and variance remain relatively stable over time. Given that all study variables, whether company-level indicators or the inflation variable, are stationary at the level $I(0)$, it is methodologically appropriate to employ panel regression models (such as fixed effects or random effects models) directly on the level form of the variables.

Table 3. Stationary Study

Method		CONS	ROA	ROE	SGWT	LIQUI	LEV	Z SCORE	TAX	SIZE	INFL
Individual intercept	Null: Unit root (assumes common unit root process)										
	Levin, Lin and Chu t*	-780.74*	-16.10*	-134.89*	-29.16*	-13.64*	-20.26*	-9.16*	-1253.65	-23.86*	-5.89*
	Null: Unit root (assumes individual unit root process)										
	Im, Pesaran and Shin W-stat	-79.11*	-9.713*	-25.05*	-18.89*	-10.50*	-6.68*	-3.55*	-129.01*	-10.83*	-10.45*
	ADF – Fisher Chi-square	764.24*	504.20*	543.09*	780.16*	555.34*	407.90*	199.09*	502.84*	543.05*	494.88*
Individual intercept and trend	PP – Fisher Chi-square	788.65*	509.70*	584.23*	894.31	571.16*	402.06*	233.74*	547.52*	709.82*	245.99
	Null: Unit root (assumes common unit root process)										
	Levin, Lin & Chu t*	-546.91*	-92.60*	-132.09*	-30.41*	-12.14*	-45.89*	-14.44*	-1054.84*	-28.59*	-17.68*
	Null: Unit root (assumes individual unit root process)										
	Im, Pesaran and Shin W-stat	-53.59*	-13.36*	-18.49*	-14.02*	-7.7715*	-7.92*	-3.60*	-90.29*	-6.470*	-2.34*
None	ADF - Fisher Chi-square	673.76*	451.62*	540.21*	674.15*	495.90*	424.74*	239.47*	460.09*	395.45*	268.43
	PP - Fisher Chi-square	901.94*	536.61*	637.37*	903.39*	669.81*	417.25*	332.60*	580.50*	488.25*	233.13*
	Null: Unit root (assumes common unit root process)										
	Levin, Lin and Chu t*	-478.54*	-11.58*	-15.09*	-26.27*	-38.28*	-1.502*	-3.52*	-652.30*	10.31*	-6.64*
	Null: Unit root (assumes individual unit root process)										
	ADF – Fisher Chi-square	893.77*	595.50*	683.86*	1097.08*	548.41*	320.72*	129.91	683.24*	58.23*	207.26
	PP – Fisher Chi-square	923.60*	630.73*	707.13*	1211.15*	535.99*	376.70*	142.03	722.78*	46.28*	211.66

* Significant at the 1% level. ** Significant at the 5% level.

Model Estimation Results

The results presented in table 4 show the estimation of equation (1) using the Panel EGLS method under the pooled regression model, based on the non-significant outcome of the fixed effects test ($p = 0.2229$). The model exhibits good explanatory power ($\text{adj. } R^2 = 0.4999$) and strong overall significance ($F\text{-statistic} = 141.98, p < 0.01$), while the Durbin-Watson statistic (1.73) confirms no autocorrelation in the residuals.

The results indicate a significant negative effect of return on assets (ROA) on accounting conservatism, which is consistent with (Solichah & Fachrurrozie, 2019; Hong & Tra My, 2024). According to signaling theory, this is attributed to managers during periods of strong performance avoiding the full application of accounting conservatism because it might reduce reported earnings; instead, they seek to send positive signals to the market and investors about the firm's future prospects. In contrast, the results show no significant effect of return on equity (ROE), which aligns with (Hong & Tra My, 2024). Moreover, sales growth (SGWT) shows no significant impact, consistent with the findings of (Hong & Tra My, 2024; Putri & Karmudiandri, 2024). This can be interpreted as increasing reliance on external financing encouraging management to focus on achieving sales and profit targets, thereby strengthening creditworthiness and attracting investment.

Furthermore, the results reveal positive and significant effects of liquidity (LIQUI), consistent with (Nasir & Yusniati, 2014), who argue that higher liquidity is associated with greater financial stability, enabling firms to absorb the immediate recognition of losses while deferring the recognition of gains without facing the risk of distress. Additionally, leverage (LEV) is positively and significantly related to accounting conservatism. This is supported by extensive literature, indicating that higher debt obligations and the risk of violating debt covenants increase firms' adoption of conservatism as a mechanism to protect creditors' interests and reduce agency conflicts (Teymouri & Sadeghi, 2020; Widhiastuti & Rahayu, 2022; Sugiarto & Fachrurrozie, 2018). Furthermore, an increase in bankruptcy risk (Z-Score) is positively associated with conservatism, consistent with (Yusnaini & Tarmizi, 2019; Widhiastuti & Rahayu, 2022; Tuharea & Fatimah, 2023). These studies suggest that accounting conservatism functions as an early warning mechanism that reduces the likelihood of bankruptcy.

In addition, the tax burden (TAX) is positively related to accounting conservatism, consistent with the literature (Watts, 2003; Asgari & Behpouri, 2014; Kim & Jung, 2007), which indicates that firms may use conservatism to reduce taxable income, thereby decreasing tax liabilities/payments. Regarding firm size (SIZE), the results show a positive and significant effect, supporting the political cost hypothesis. This suggests that larger firms are more likely to face increased political/governmental scrutiny, which may lead them to adopt more conservative accounting practices in order to reduce reported profits and avoid potential political costs (Solichah & Fachrurrozie, 2019; Widhiastuti & Rahayu, 2022).

Finally, ownership structure (PROP) shows no significant effect, consistent with the findings of (Teymouri & Sadeghi, 2020), which reported no statistical significance for certain ownership types with respect to accounting conservatism. In addition, industry sectors (SEC) exhibit a weak negative effect, reflecting lower levels of conservatism in some industries with particularly sensitive characteristics, such as the pharmaceutical sector.

The results of estimating equation (2) using the fixed effects model, after incorporating inflation as a moderating variable, confirm that this specification is the most statistically appropriate according to the Hausman and Redundant Fixed Effects tests (both significant at the 1% level). The model exhibits strong validity, with an F-statistic of 72.64 ($p\text{-value} = 0.000000$), explanatory power of 61.2%, and a Durbin-Watson statistic of 1.77, ruling out autocorrelation issues.

Compared to equation (1), the variables of liquidity, leverage, taxes, and firm size lost their statistical significance. Regarding the interaction with inflation, the interaction terms were insignificant except for the interaction between bankruptcy risk and inflation (ZSCORE*INF) and between leverage and inflation (LEV*INF), both significant at the 1% level with positive effects on accounting conservatism. This implies that inflation amplifies the impact of financial risk and indebtedness.

Table 4. Equation Estimation Results (1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	-0.080525	0.005987	-13.45053	0.0000
ROE	0.000673	0.001070	0.628425	0.5298
SGWT	-0.000270	0.000413	-0.653077	0.5138
LIQUI	0.000655	0.000244	2.681070	0.0074
LEV	0.011069	0.002207	5.014583	0.0000
ZSCORE	0.002565	0.000492	5.213180	0.0000
TAX	0.077413	0.006625	11.68415	0.0000
SIZE	0.000584	0.000278	2.096168	0.0362
PROP	0.000860	0.000658	1.308313	0.1910
SEC	-0.000351	0.000184	-1.912202	0.0561
C	-0.015568	0.003891	-4.000584	0.0001
R-squared	0.503514	Mean dependent var		-0.006508
Adjusted R-squared	0.499968	S.D. dependent var		0.043738
S.E. of regression	0.030945	Sum squared resid		1.340629
F-statistic	141.9817	Durbin-Watson stat		1.733582
Prob(F-statistic)	0.000000			
Redundant Fixed Effects Tests		Statistic	d.f.	Prob.
		1.291954	(11,1389)	0.2229
Hausman Test		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
		31.349175	8	0.0001

Dependent Variable: CONS.

Method: Panel EGLS (Pooled Regression).

Source: based on Eviews 13.

Accordingly, the significant effects of (LEV*INF) and (ZSCORE*INF), together with the improved explanatory power of equation (2) relative to equation (1); this indicates the existence of a positive effect of inflation on the level of accounting conservatism. This finding is consistent with the studies of Esfandabad and Jahanshahi (2018) and Khalid et al. (2021), which concluded

that inflation exerts a positive influence on accounting conservatism. This relationship is attributed to the fact that rising inflation rates increase the nominal value of assets, which in turn affects the market value of shares. Consequently, companies are motivated to enhance their level of conservatism in order to adapt to these changes and safeguard shareholders' equity.

Table 5. Equation Estimation Results (2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	-0.064533	0.019052	-3.387188	0.0007
ROE	0.006121	0.003299	1.855469	0.0637
SGWT	-0.001444	0.001701	-0.849098	0.3960
LIQUI	0.000192	0.000652	0.294086	0.7687
LEV	-0.012372	0.007229	-1.711351	0.0872
ZSCORE	-0.003285	0.001609	-2.041281	0.0414
TAX	0.042262	0.024269	1.741427	0.0818
SIZE	-0.000305	0.000931	-0.327725	0.7432
PROP	-0.002162	0.002261	-0.956230	0.3391
SEC	-0.000321	0.000622	-0.515700	0.6061
ROA*INF	-0.235686	0.254836	-0.924853	0.3552
ROE*INF	-0.077889	0.048855	-1.594298	0.1111
SGWT*INF	0.010049	0.021543	0.466456	0.6410
LIQUI*INF	0.012788	0.010563	1.210605	0.2263
LEV*INF	0.390055	0.099823	3.907471	0.0001
ZSCORE*INF	0.091858	0.023215	3.956785	0.0001
TAX*INF	0.469692	0.305849	1.535700	0.1248
SIZE*INF	0.012082	0.013814	0.874653	0.3819
PROP*INF	0.048342	0.033049	1.462729	0.1438
SEC*INF	1.46E-05	0.008998	0.001624	0.9987
C	-0.012759	0.004297	-2.969607	0.0030
R-squared	0.620215	Mean dependent var		-0.005929
Adjusted R-squared	0.611677	S.D. dependent var		0.051380

Table 5. Equation...

Variable	Coefficient	Std. Error	t-Statistic	Prob.
S.E. of regression	0.032069	Sum squared resid		1.418229
F-statistic	72.64509	Durbin-Watson stat		1.767214
Prob(F-statistic)	0.000000			
Redundant Fixed Effects Tests		Statistic	d.f.	Prob.
		2.386662	(11,1379)	0.0063
Hausman Test		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
		47.863351	18	0.0002

Dependent Variable: CONS.

Method: Panel EGLS (Fixed Effects).

S o u r c e : based on Eviews 13.

The comparison between equations (1) and (2) reveals a fundamental shift in understanding accounting conservatism, which is no longer interpreted solely as a direct result of firms' internal characteristics but is now closely associated with the macroeconomic environment, particularly in inflationary contexts. While equation (1) presented a traditional view of conservatism as a response to financial factors such as liquidity, leverage, bankruptcy risk, tax burden, and firm size, the introduction of inflation in equation (2) reshapes these relationships and their implications.

Results from equation (2) indicate a decline in the statistical significance of most traditional determinants when assessing their direct impact, suggesting that inflation undermines the explanatory power of these factors in isolation. This reflects that accounting conservatism during inflationary periods is not exercised as a static policy but as flexible behavior governed by economic uncertainty, where traditional financial indicators partially lose their capacity to represent firms' actual economic reality. Conversely, inflation emerges as a moderating variable that amplifies the impact of certain inherent risk sources, particularly leverage and bankruptcy risk. The positive signs of interaction coefficients suggest that firms with higher debt levels or those more susceptible to financial distress tend to adopt higher levels of accounting conservatism in inflationary environments, as a response to increasing uncertainty associated with the fair values of assets and liabilities.

These results align with Hejranijamil et al. (2020), who argued that inflation increases economic uncertainty, prompting firms to adopt more conservative accounting policies as a risk management mechanism to ensure financial information accuracy and strengthen investor confidence. They also correspond with Seddiki and Taiba (2025) regarding conservatism's role in achieving economic stability by mitigating risks associated with inflation and recession. This confirms that conservatism is not merely an internal accounting choice but rather a tool for adapting to the broader economic environment.

■■■ CONCLUSIONS

The results of this study contribute to redefining the function of accounting conservatism in inflationary conditions, extending its traditional role beyond mere compliance and reduction of political and tax costs to a strategic mechanism for managing systemic risks and maintaining financial credibility. Inflation amplifies uncertainty regarding future earnings and cash flows, prompting high-risk firms to adopt more cautious estimates to avoid unwarranted exaggeration in financial reporting.

Methodologically, the improvement in the explanatory power after adding inflation highlights the importance of incorporating macroeconomic variables into accounting conservatism models, especially in economies experiencing price instability. The inclusion of inflation not only enhanced the statistical fit of the model but also deepened the theoretical understanding of accounting conservatism as a dynamic phenomenon that adapts to prevailing economic risks.

The results confirmed the negative relationship between firm profitability (measured by return on assets) and conservatism levels, aligning with signaling theory. Conversely, variables related to financial risks such as leverage, bankruptcy risk, and tax burden exhibited a statistically significant positive effect on conservatism levels, supporting agency cost hypotheses. After introducing inflation as a moderating variable, a substantial increase in the model's explanatory power was observed. Results indicated a decline in the statistical significance of several traditional internal determinants when measuring their direct effects, suggesting that the macroeconomic nature of inflation significantly alters relationships among these variables.

Inflation emerged as a key moderating variable, with results indicating that interaction terms with leverage and bankruptcy risk were statistically significant. This reflects that firms with high debt levels or those nearing default

become more sensitive to systemic risks in inflationary environments, prompting them to adopt more conservative accounting practices. Consequently, these findings urge a reconsideration of accounting conservatism, transitioning it from a static policy to a dynamic behavior that interacts with macroeconomic conditions. In high-inflation contexts, conservatism becomes an effective tool for risk management and enhancing financial credibility, thus contributing to a deeper understanding of financial reporting motivations and practices, particularly in emerging economies or those facing economic challenges.

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