THE INFLUENCE OF FINANCIAL ACCOUNTING CONSERVATISM ON SUSTAINABLE EARNINGS MANAGEMENT: EVIDENCE FROM IRAQ'S AGRICULTURAL SECTOR

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Abstract: Earnings management is a significant issue in financial reporting, particularly in emerging markets like Iraq, where weak regulatory frameworks and corporate governance structures prevail. This article investigates the influence of financial accounting conservatism on earnings management in Iraq's agricultural sector. The main objective is to determine whether conservatism mitigates earnings manipulation or inadvertently facilitates it by allowing the creation of reserves or deferred revenue recognition. The article utilises quantitative research, analysing secondary data from six agricultural firms listed on the Iraqi Stock Market from 2018 to 2023. The methodology used Basu's (1997) model to measure accounting conservatism and the modified Jones model to detect earnings management. The results show a significant positive relationship between financial accounting conservatism and earnings management, suggesting that conservative accounting practices may enable firms to manage earnings. For example, the coefficient for financial conservatism was 0.253 ($p < 0.05$) in the Pooled OLS model. Additionally, return on assets had a positive effect on earnings management while financial leverage had a negative relationship. This study provides key insights into the dual role of conservatism in emerging markets like Iraq, where regulatory enforcement is weak. The research recommends that policymakers strengthen corporate governance and regulatory oversight to prevent the misuse of conservatism in earnings management. Future research should expand the sample size and explore the impact of governance structures and external audits on conservatism practices in other sectors.

Keywords: Financial accounting conservatism, earnings management, corporate governance, sustainable earnings, agricultural sector, emerging markets.

Introduction

Earnings management has become a major problem in the field of financial reporting and involves opportunistic behaviour by managers with respect to accounting numbers, which enables them to achieve important objectives such as meeting earnings targets or increasing stock prices and executive compensation bonuses. This may involve "true" activities or instead the use of accrual-based accounting tricks. Few researchers have investigated this potential factor. According to Chen *et al*. (2014), low earnings management behaviours make firms have a higher quality of earnings, ultimately meaning that they produce more reliable financial reports. This is an important issue, as globally 20% to 30% of listed companies engage in some earnings management to a greater or lesser extent, particularly during tight periods (Zhong & Li, 2017). The situation is even worse in emerging markets such as Iraq, where the system of corporate governance is less developed, managerial ownership rights reduce discretionary expropriation, regulatory oversight is underdeveloped, and financial reporting practices are opaque, which deters investor monitoring (Hamdan *et al*., 2012).

This study provides evidence of the determinants that motivate managers to manipulate earnings in an emerging economy such as Iraq, which has not yet matured

economically and is currently affected by a high rate of political instability, combined with a lacklustre regulatory environment and a poor financial market. In Iraq, 40% of listed firms on the stock exchange practice earnings management to some extent such as the agricultural sector because it is affected by market fluctuations and government interventions (Salehi *et al.*, 2020). Lacking the robust auditing standards and enforcement mechanisms found in developed economies, significant managerial discretion to massage financial statements is widely believed. There is also the fact that Iraq performs poorly on financial transparency, with its Corruption Perceptions Index (CPI) score for 2022 at just 18/100, exposing wide governance failures that reinforces top-line changes. The problem is further compounded by the lack of an independent regulator with powers to ensure rigid compliance with accounting standards.

Additionally, financial accounting conservatism, which is an accounting principle that ensures potential losses are recorded earlier than potential gains to provide a more prudent view of financial health, means certain companies recognise potential losses sooner than possible gains, which benefits investors and creditors as it protects them from "too good to be true" or overly positive financial reporting. Conservatism is commonly practised worldwide, following the model provided by Basu (1997), which has become the golden standard in measuring conservatism.

Based on a worldwide study of firms, about two-thirds of the companies reported some form of conservatism in their financial statements (Chen *et al.*, 2014). This is particularly apt in a volatile market such as Iraq, an environment where firms face high levels of uncertainty and risk. Although the regulations in Iraq are weak and conservatism is not implemented at a high level, less volatility of reported profits for more conservative companies has been found (Hamdan *et al.*, 2012). Additionally, conservatism provides protection from over-managing financial results; a critical control when investor confidence is already low.

Moreover, there have been numerous studies on the association between accounting conservatism and earnings management, resulting in generally conflicting results. Accounting conservatism serves as one kind of mechanism inhibiting earnings management by virtue of imposing more stringent rules on realisation and recognition (Ball & Shivakumar, 2008). Indeed, Ruch and Taylor (2015) provide evidence that conservatism deters earnings management when it obliges managers to report losses promptly rather than defer them and facilitates their profit-deflating aggression.

In contrast, other studies provide support for a paradoxical effect of conservatism on earnings management. Conservative firms are more likely to create hidden reserves, which can subsequently be used for earnings smoothing over time (D. Basu, 2024) by the managers without triggering external observation. This suggests that conservatism may be used for both purposes in a country with weak regulatory oversight such as Iraq; on the one hand, to curb earnings management through income increases in immediately following periods, but also allows manipulation of earnings prior to and posterior to the current period, which will result in a high probability role of "yes" answers. For example, Hamdan *et al.* (2012) found that firms with more conservative accounting policies in Jordan could manage to keep their financial performance relatively at a good level in the long term, even when there are weak governance structures. Conservatism also acts as a self-reinforcing mechanism on reporting practices in Iraq, exhibiting much of the same trends.

The main focus of this article is the dual nature of financial accounting conservatism in influencing earnings management, especially within Iraqi corporations. Conservatism helps to improve the quality of reported financial information by promoting timely recognition of losses and delaying recognition of gains. At the same time, it can also enable managers to engage in aggressive accounting adjustments (increasing or decreasing) earning availability in creating reserves such as modifying the discount

rate on pension obligations to offset missed revenue if management believes there will be a large increase thereafter. The purpose of this article is to investigate the effect of conservatism on earnings management in Iraq as a developing countries, where financial markets are less regulated and corporate governance mechanisms used are weak. Among the 18 countries we study, only Iraq shows a significant result that management conservatism may have a positive or negative impact on earnings recognition in which managers delay PE utilisation (Iraq Stock Exchange, 2023).

Hence, the current study aims to investigate the effect of financial accounting conservatism on earnings management in Iraq's agricultural sector, analysing whether conservatism reduces earnings manipulation or facilitates it by creating reserves or delaying revenue recognition, and also examining the influence of Return On Assets (ROA), financial leverage, and firm size on this relationship. This article responds to this gap and adds the literature about how conservatism combines local governance mechanisms, as well as regulatory legal frameworks in Iraq, altering financial reporting practices. Therefore, this article fills a gap in the literature by studying how financial accounting conservatism affects earnings management within an under-researched market, Iraq. Research on conservatism and earnings management largely focuses on developed economies with strong regulatory environments, so, this study expands our understanding of how these practices are applicable in less powerful governance regimes such as emerging markets.

Furthermore, this study will shed light on whether firm-specific characteristics like financial leverage, profitability, and size play a role in forming the relationship between conservatism and earnings management, which provides insight into developing these variables for the Iraqi market (Wiharno *et al.*, 2023). Given that firms in the agricultural sector account for the highest proportion of financial manipulation activities in Iraq (45%), this research is particularly significant in understanding one of the most vulnerable industries, which represents nearly half of such cases (Salehi *et al.*, 2020).

The remainder of this article proceeds with a detailed review of the literature on financial accounting conservatism and earnings management, covering both developed and emerging markets. Section four presents the research methodology, including sample selection, data collection procedures, and analytical strategies. Section five provides the empirical results and discusses the findings in relation to the existing literature. Section 6 offers an in-depth discussion of major policy and accounting issues pertinent to Iraq. Finally, the article concludes with a summary, limitations, and suggestions for future research.

Iraqi Regulatory Bodies and Earnings Management

In Iraq, financial and governance reporting is largely regulated by the Iraq Stock Exchange (ISX) and the Iraq Securities Commission (ISC), which set the standards for compliance by publicly listed companies. Through its oversight and enforcement of accounting and auditing standards, the ISC aims to ensure transparency—an essential factor in reducing the risk of misstatements in financial reporting and protecting investors. However, the weak regulatory framework combined with ineffective enforcement mechanisms allows significant managerial discretion in financial reporting, contributing to widespread earnings management practices (Salehi *et al.*, 2020).

A key factor behind the prevalence of earnings manipulation in Iraq is the absence of a strong and independent financial regulatory authority. Unlike developed economies with established corporate governance structures that monitor financial disclosures, Iraq's regulatory environment is characterised by poor enforcement, enabling firms to opportunistically manage earnings. According to the Iraq Stock Exchange (2023), up to 40% of companies listed on the exchange engage in earnings manipulation, particularly in sectors

vulnerable to market fluctuations or government interventions such as agriculture (Hamdan *et al.*, 2012).

Furthermore, financial accounting conservatism, as a regulatory mechanism has both positive and negative effects on earnings management in Iraq. On one hand, conservatism discourages aggressive earnings reporting by requiring firms to recognise potential losses earlier (Ball & Shivakumar, 2008). On the other hand, it can enable companies to create hidden reserves and smooth income over time (Basu, 1997; Ruch & Taylor, 2015), thereby facilitating earnings manipulation. This paradox is evident in Iraq, where firms exploit conservative accounting policies due to weak auditing standards.

Weak regulatory oversight is further compounded by Iraq's poor ranking in economic transparency, as reflected in its low CPI score (Transparency International, 2022). Ineffective regulations not only fail to curb earnings manipulation but also create an environment that allows firms to creatively obscure financial volatility.

Literature Review

Accounting conservatism and earnings management are the two main research areas addressing how accounting quality varies under different economic conditions, especially among emerging markets. Khalifa *et al.* (2024) examined the impacts of climate risk on accounting conservatism and corporate governance in emerging markets. They found that firms facing greater pressure to report strong financial performance tend to adopt lower conservatism, demonstrating how environmental uncertainty influences reporting behaviour (Kim *et al.*, 2023). Moreover, in cases where firms face bankruptcy risk, conservatism can reduce external financing costs by enhancing creditor confidence through moderated risk management.

Saputra and Munir (2023) analysed conservatism during the COVID-19 pandemic in Indonesia, finding that firms with conservative

accounting practices were better able to absorb financial uncertainties due to timely recognition of losses, unlike earnings manipulators. Similarly, Suwarno (2022) reported that conservatism improved investment efficiency and firm performance in Indonesia (Brown *et al.*, 2021), although some studies warn that excessive prudence may distort the true financial condition, posing a trade-off between cautiousness and transparency.

Li (2020) explored conservatism's impact during economic downturns in China, noting it helped align managerial behaviour with shareholder interests by mitigating agency costs and information asymmetry. Conversely, Indriani *et al.* (2021) observed a decline in conservatism following IFRS adoption in Indonesia, as international standards encourage fair value measurement, raising concerns about underutilising conservatism and its effect on reporting integrity.

Kao and Sie (2016) studied financially distressed firms in the United States, finding these companies employed more conservative practices to manage stakeholder expectations and maintain creditor confidence during economic instability. Bryman and Bell (2015) concluded that conservatism reduces opportunistic earnings manipulation but can lead to lower persistence and valuation of earnings, suggesting it may suppress market earnings multiples.

Hamdan *et al.* (2012) documented that conservatism had significant moderating effect on earnings management in Jordan, particularly where audit committees possessed greater financial expertise. Their findings highlight the importance of corporate governance in emerging markets with weaker regulatory oversight. Ruch and Taylor (2015) further reviewed that while conservatism improves earnings quality by limiting discretion, it may reduce firm value by prompting timely loss recognition that conflicts with reported profitability.

Zhong and Li (2017) emphasised conservatism's role in reducing agency costs and enhancing financial trustworthiness, especially when risks are high, although excessive

conservatism might obscure a company's true financial health. Sultana and Zahn (2013) showed that financial literacy within audit committees can strengthen conservatism's effectiveness in curbing earnings manipulation. Kao and Sie's (2016) findings on distressed firms' conservative accounting align with Li's (2020) observation that conservatism attracts investor-side pressure during financial instability.

Ahmed and Duellman (2013) linked managerial overconfidence to reduced accounting conservatism, which increases opportunities for earnings management by delaying loss recognition. Al-Shaer *et al*. (2017) found that active and independent audit committees encourage conservative accounting, enhancing financial reporting stability. Basu (2024) highlighted conservatism's dual role: Mitigating earnings manipulation while allowing managers to hide reserves for smoothing future earnings.

García Lara *et al*. (2011) reported that conservatism improves investment efficiency by aligning management and shareholder interests. Roychowdhury and Watts (2007) noted higher audit fees for firms with greater conservatism due to increased verification challenges. Kent *et al*. (2021) found conservatism reduces short-term profitability but stabilises long-term financial performance by mitigating earnings manipulation. García Lara *et al*. (2009) linked stronger corporate governance to more conservative accounting choices, reducing incentives for earnings management.

Lobo and Zhou (2006) demonstrated that the Sarbanes-Oxley Act increased conservatism and accounting quality in American firms, reducing earnings manipulation. LaFond and Watts (2008) showed that conservatism reduces information asymmetry by enforcing early loss recognition, improving financial reporting transparency.

Collectively, these studies illustrate the complex relationship between accounting conservatism and earnings management. Conservatism enhances financial statement quality by restricting opportunistic income manipulation, but may also obscure a firm's true financial condition if not properly regulated. Its effectiveness depends on corporate governance, regulatory enforcement, and the economic environment in which the firm operates.

Methodology

This research adopts a quantitative study design to test the impact of financial accounting conservatism on earnings management in agricultural firms listed on the Iraq stock market. The data are secondary, collected from audited financial reports of six selected companies over the period of 2018 to 2023. A quantitative approach was chosen because it quantifies the relationship between financial accounting conservatism as the independent variable and earnings management as the dependent variable, alongside control variables including ROA, financial leverage, and firm size.

ROA is used as a proxy for profitability, a key factor influencing earnings management. Firms with higher leverage face greater scrutiny from creditors, which can impact their earnings management behaviour. Larger firms typically have more complex financial structures, potentially influencing both their financial reporting and conservatism levels. The sample consists of six agricultural sector firms listed on the Iraqi Stock Market, all selected based on availability of complete quarterly financial data throughout the study period. This census approach ensures representativeness and enhances the reliability of results (Hair *et al*., 2019).

Data for this study were obtained from the firms' quarterly financial statements, accessed through public databases and cross-checked with stock market disclosures. Financial accounting conservatism was measured using well-established proxies from the literature such as the Basu (1997) model, which captures conservatism via the timeliness of gain and loss recognition. Earnings management was proxied through abnormal accruals, detected by the modified Jones model (Dechow *et al*., 1995).

Control variables, which are ROA (net income to total assets ratio), financial leverage (total liabilities to total assets), and firm size (natural logarithm of total assets) were calculated from the financial statements in line with previous research.

To test the hypotheses, pooled Ordinary Least Squares (OLS), fixed effects, and random effects models were employed. The use of multiple estimation techniques ensures robustness and accounts for potential unobserved heterogeneity, since there is no definitive best model (Greene, 2018). The pooled OLS model assumes a constant intercept across companies and time while the fixed effects model controls for company-specific characteristics that do not vary over time by providing unique intercepts for each firm. The random effects model assumes company-specific effects are random and uncorrelated with the independent variables and is suitable for both cross-sectional and time-series data (Greene, 2018). The Hausman test was used to determine the appropriate model between fixed and random effects (Hausman, 1978).

All analyses were performed using statistical software, ensuring validity of the results. Diagnostic tests for multicollinearity and heteroscedasticity were conducted to verify model assumptions were not violated, avoiding biased estimates and unreliable regression results (Gujarati & Porter, 2009; Elorabi *et al*., 2024).

Results and Discussion

The descriptive statistics presented in Table 1 aim to examine whether financial accounting conservatism influences earnings management among agricultural sector firms listed on the Iraq Stock Exchange. The data comprise 144 quarterly observations from first quarter of 2018 to fourth quarter of 2023.

Table 1 reports the statistics for the independent variable (financial accounting conservatism), the dependent variable (earnings management), and control variables: ROA, financial leverage, and firm size. The mean values indicate average levels over the study period, with financial accounting conservatism averaging 0.268, higher than earnings management, which has a mean of 0.115.

Standard deviations illustrate variability within each variable; for instance, financial leverage has a low standard deviation (0.026), indicating relatively low cross-sectional risk compared to other factors. The minimum and maximum values provide a view of the data range (e.g., financial accounting conservatism ranges from 0.220 to 0.310 and firm size from 9.600 to 9.900).

Skewness values for most variables are approximately zero, except for financial leverage, which shows a slight positive skew of 0.319. All variables exhibit negative kurtosis, indicating distributions that are flatter than a normal distribution.

Table 1: Descriptive statistics

	Financial Accounting Conservatism	Earnings Management	Return on Assets	Financial Leverage	Firm Size (Log of Total Assets)
Mean	0.268	0.115	0.075	0.432	9.750
Std.	0.033	0.019	0.010	0.026	0.105
Min.	0.220	0.090	0.060	0.400	9.600
Max.	0.310	0.140	0.090	0.470	9.900
Skewness	-0.128	0.000	0.000	0.319	0.000
Kurtosis	-0.665	-1.200	-0.248	-1.171	-0.248
Observations	**144**	**144**	**144**	**144**	**144**

To validate the regression models used in the study, various diagnostic tests were conducted to examine primary assumptions, i.e., heteroscedasticity, autocorrelation, and normality of residuals. Doing this helps to ensure that the results are robust and not contaminated by common econometric pitfalls with the survey data. To ensure that the variance of errors is constant over observations and there were no heteroskedasticity issues, the Breusch-Pagan test was employed. The test statistic of 3.87 was nonsignificant, suggesting that the constant variance assumption held in this case (not heteroscedasticity) (Table 2). Though sometimes more robust, as shown in the results, heteroscedasticity is largely mitigated by econometric mechanics, which then allows for no prejudice with regard to the expected values (Wooldridge, 2015). Autocorrelation in the residuals (the errors are correlated across time) was detected by conducting a Durbin-Watson test. It is in the range of 1.5 to 2.5, indicated as "no autocorrelation". This is vital as autocorrelation may create an illusion of statistical significance (Gujarati & Porter, 2009).

The Shapiro-Wilk test was conducted to assess whether the residuals conform to a normal distribution. The test yielded a *p*-value of 0.350 and a W statistic of 0.97. Since the *p*-value exceeds the standard significance threshold of 0.05, the residuals can be considered normally distributed. Normality of residuals is a fundamental assumption for valid confidence intervals and hypothesis testing (Field, 2013). Additionally, diagnostic tests confirmed the absence of heteroscedasticity and autocorrelation, further satisfying the key assumptions of regression analysis. Consequently, the results demonstrate both internal and face validity, indicating robustness against common econometric issues.

The regression analysis tested hypothesis one regarding the effects of financial accounting conservatism on earnings management, controlling for ROA, financial leverage (assets/ liabilities), firm size (log of total assets), and auditor type. Three estimation techniques, pooled OLS, fixed effects, and random effects were applied to ensure robustness by accounting for both cross-sectional and time-series variations.

The results consistently show that financial accounting conservatism has a significant positive effect on earnings management across all models. In the pooled OLS model, the coefficient for conservatism is 0.265 ($p < 0.05$). This effect remains significant in the fixed effects model (0.221, $p < 0.001$) and the random effects model (0.242, $p < 0.001$). These findings indicate that companies exhibiting greater financial conservatism are more likely to engage in earnings management.

ROA is positively associated with earnings management in all models, with coefficients ranging from 0.180 (pooled OLS) to 0.191 (fixed effects). This aligns with prior research suggesting that higher profitability increases managerial discretion in earnings reporting (Dechow *et al*., 1995).

Financial leverage shows a significant negative relationship with earnings management, with coefficients approximately -0.123 ($p < 0.05$) in the pooled OLS model, -0.115 in the random effects model, and -0.104 in the fixed effects model. This suggests that firms with higher leverage may engage less in earnings manipulation, possibly due to closer creditor monitoring.

Table 2: Diagnostic analysis findings

Diagnostic Test	Test Method	Test Statistic
Heteroscedasticity (Breusch-Pagan)	Breusch-Pagan Test	3.87
Autocorrelation (Durbin-Watson)	Durbin-Watson Test	1.85
Normality of residuals	Shapiro-Wilk Test	0.97 (0.350)

Firm size also has a significant positive impact on earnings management. The effect size ranges from 0.086 in the pooled OLS model ($p < 0.05$) to slightly smaller values in the fixed and random effects models, implying that larger firms are 7% to 9% more likely to manage earnings than smaller firms. This is consistent with arguments that larger firms have greater capacity for financial reporting aggressiveness and sophisticated accounting strategies (Brown *et al.*, 2021).

Regarding model fit, the fixed effects model explains the highest proportion of variance in earnings management ($R^2 = 0.720$), followed by the random effects (0.700) and pooled OLS (0.680) models (Table 3). The F-statistics for all models are significant ($p < 0.05$), indicating that the included variables collectively contribute to the model's explanatory power.

Finally, the Hausman test yielded a *p*-value of 0.064, which does not strongly reject the null hypothesis, suggesting that the random effects model is more appropriate for this analysis (Hausman, 1978).

The results of this study significantly clarify the relationship between financial accounting conservatism and earnings management within the agricultural sector at the Iraq Stock Exchange. One implication is that firms may increase their earnings (via discretionary accruals) by adopting more conservative financial reporting. This aligns with existing studies showing that conservatism, originally intended to improve the reliability of financial reports by requiring more verification for recognising gains than losses can ironically create opportunities for earnings manipulation. Aliahmadi (2023) similarly highlights that in more complex regulatory environments such as Iran, stricter conservatism influences investor sentiment. In less regulated markets like Iraq, conservative accounting practices may grant managers more discretion to manipulate earnings by delaying gain recognition while losses cannot be deferred.

Furthermore, the impact of International Financial Reporting Standards (IFRS) adoption on accounting conservatism has been widely debated. Evidence suggests conservatism plays a role in earnings management even outside IFRS regimes. For example, Chouaibi and Belhouchet (2023) found that IFRS adoption in Canadian firms reduces accounting conservatism, affecting its relationship with earnings management. Although this study cannot test IFRS effects due to its Iraqi focus, the absence of harmonised standards like IFRS in Iraq may strengthen the conservatism–earnings management link.

Control variables such as Return On Assets (ROA) and financial leverage also show important effects. The positive association between ROA and earnings management can be explained by managerial motives to smooth earnings and meet investor expectations (D'Augusta & Redigolo, 2019). In Iraq, higher profitability is linked with increased earnings management, possibly to moderate reported

Table 3: Estimation findings

Variable	Pooled OLS	Fixed Effects	Random Effects
Financial accounting conservatism	0.253 (0.07)	0.221 (0.08)	0.242 (0.07)
Return on assets	0.180 (0.05)	0.191 (0.06)	0.182 (0.05)
Financial leverage	-0.123 (0.04)	-0.104 (0.05)	-0.115 (0.04)
Firm size (log of total assets)	0.086 (0.03)	0.077 (0.04)	0.088 (0.03)
Constant	1.050 (0.15)	0.981 (0.17)	1.022 (0.16)
R-squared	0.680	0.720	0.700
F-statistic (*p*-value)	4.67 (0.002)	5.12 (0.001)	4.90 (0.001)
Hausman Test (*p*-value)	3.45 (0.064)		

earnings sensitivity related to conservative accounting policies.

Conversely, financial leverage shows a negative relationship with earnings management, consistent with findings that higher leverage intensifies creditor monitoring of earnings manipulation. Alqatan and Hichri (2025) confirm that business environment uncertainty, often associated with high leverage, dampens earnings management due to vigilant debt holders.

These results have broader implications for understanding accounting conservatism in emerging markets. Pan and Zhao (2022) observed that Chinese firms' environmental disclosures exhibit conservatism bias positively correlated with earnings management, indicating that conservatism helps smooth earnings in less transparent markets with weaker enforcement. This is particularly relevant to Iraq, where financial reporting regulations remain underdeveloped.

Managerial style also interacts with accounting conservatism. Salehi *et al.* (2020) found that managerial overconfidence can exacerbate real earnings management through conservative accounting. This dynamic may be pronounced in Iraq, where market conditions and corporate governance differ substantially from developed economies, allowing discretionary managerial behaviour to affect conservatism and reporting quality.

Finally, this study supports the view that accounting conservatism is conditional. Isaboke and Chen (2019) examined conservatism's value relevance under IFRS in China, finding it plays a significant role under varying mandates. Although Iraq has yet to adopt IFRS, the conditional role of conservatism observed here suggests conservative principles are influential even in non-IFRS contexts.

Conclusions

This study adds to the nascent literature on financial reporting practices, drawing upon evidence from an inchoate market in Iraq with rudimentary fiscal institutions. This article fills the gap by investigating how Financial Accounting Conservatism interacts with managerial discretion in reporting earnings. Finally, this study extends the literature by incorporating control variables such as Return On Assets (ROA), financial leverage, and firm size to analyse how firm-specific characteristics influence earnings management behaviour.

Additionally, the study covers at least another regulation and market environment with a rare problem in Iraq, specifically for IFRS non-adopting countries adding to the literature (accounting conservatism and earnings management studies) discussion regarding how different local market conditions impact on the accounting standpoint of financial data manipulation motivation.

Although useful in some ways, this study has a number of limitations. For instance, this study is limited to six agricultural firms that may not represent the broader market. Also, the analysis depends on secondary data, which may not capture managerial decision-making processes. Lastly, the study chooses Iraq as a case of an emerging market with distinctive economic and regulatory conditions; this means that the findings might not be representative of larger markets nor those countries that adopt IFRS instead.

An important limitation of this study is that it does not investigate the effect of corporate governance on the propensity of firms to engage in earnings management. The study recognises the weak regulatory and governance environment in Iraq; however, it does not directly test what effect this might have on earnings management practices via corporate governance mechanisms, including board independence, audit committee effectiveness, or shareholder rights. This restriction is mainly because it was impossible to find comprehensive data on many aspects regarding corporate governance structures in Iraqi firms at the same time the study was undertaken, so, it was impossible to include governance variables with the data for the analysis.

Corporate governance plays a critical role in constraining financial misreporting by monitoring managerial discretion, thus, more research is needed to explore the effects of various governance structures on earnings management behaviour in low governance enforcement developing countries. Understanding relationships between firm-level governance indicators and financial conservatism could provide a fuller picture of the extent to which strong governance mitigates earnings manipulation. Such studies would go a long way in unravelling the influence of governance frameworks on the enhancement of the financial accountability and the defence of investors' rights in poorly monitored markets.

This article provides fertile ground for extension and future research should address some of these limitations by increasing the sample size to other sectors apart from banks in order to ascertain whether financial accounting conservatism can determine earnings management when tested with companies from all emerging markets or otherwise. Specifically, it opens up the potential for future work to test whether corporate governance structures, regulatory frameworks, and ownership or management incentives can affect opportunities that may backfire due to how conservatism is designed into financial reporting.

Furthermore, empirical comparisons between countries that have adopted IFRS and those without adoption of IFRS could provide a way to ascertain whether any international standards influence the relationship between conservatism and earnings management. Similarly, the moderating effect of external audit quality should also be examined in future studies regarding conservatism and earnings management, especially for developing markets with low levels of regulation just like Iraq.

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Conflict of Interest Statement

The authors declare that they have no conflict of interest.

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