

# The Impact of the Asymmetric Behavior of the Costs on the Degree of Accounting Reservation in the Financial Reports of Iraqi Industrial Companies a Field Study of a Sample of Iraqi Industrial Companies

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**Annotation:** The research aimed to identify the impact of the asymmetric behavior of the costs on the degree of accounting reservation in the financial reports of Iraqi industrial companies by understanding the asymmetric behavior of the costs and factors affecting it and determining the terms of the most inclined costs for asymmetric behavior, The field study was conducted on a sample of 50 individuals and internal auditors working in Iraqi industrial companies located in Basra Governorate and external auditors working in the Financial Supervision Bureau, Basra Branch, as well as a group of accounting and cost professors for accounting departments in Iraqi universities in Basra. The most important thing that the results of the field study revealed is that the asymmetric behavior of the costs affects the degree of accounting reservation through the theory of the agency and the method of profit management, and the results also resulted in a weakness in the knowledge of the financial and costly society of Iraqi industrial companies in the concept of asymmetric behavior. The researchers came out with several recommendations, the most important of which is the necessity of taking into account the asymmetric behavior of some of the costs in the stages of planning costs and oversight in order to control it and note the extent of the response of some costs to change the increase or deficiency with the change of the activity because this leads to the accuracy of the information contained in the financial statements and maximizing the return on Investments and emphasizing the importance of increasing the knowledge of the financial and costly society in Iraqi industrial companies in the concept of asymmetric behavior of costs through seminars to determine the contents of this concept.

**Keywords:** asymmetric behavior of costs, accounting reservation, agency theory, profit management.

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## Introduction

Costs are classified according to the traditional method into fixed costs (which are fixed for the total and variable at the level of one unit) and variable costs (which are variable for the total and fixed at the level of one unit) depending on the change in the volume of activity, and this classification assumes that the relationship between costs and change in The volume of activity is the same regardless of the direction of those changes, increase or decrease. "Youssef" indicates that this concept remained prevalent until the study (Malcom, 1991), which is one of the first studies that exposed the concept of asymmetric behavior of costs, then came the study (Anderson, Banker & Janakiraman, 2003), which indicated that the behavior of costs becomes Asymmetric if the rate of increase in costs when the volume of activity increases is greater than the rate of its decrease when the volume of activity decreases by the same percentage This study was based on the result of examining the relationship between the behavior of each of the cost of goods sold and the cost of selling and administration, and the change in sales revenue, as it showed that managers expecting an increase in sales revenue motivates them to increase resources and activities and thus increase costs by a faster and greater amount than reducing resources and activities when they expect a decrease in the Future sales revenue (Yousef, 2019: 19-20).

Because asymmetric cost behavior reflects agency effects as a result of decisions made by managers about resources needed to achieve the self-interest of managers that may take into account personal benefit rather than corporation value, Therefore, most studies and research tended to study the asymmetric behavior of costs and its interpretation from the perspective of the irrational behavior of managers, and with the emergence of the agency theory, the need for accounting conservatism in financial reports was created, as the separation of ownership from management led to the use of the company's owners and shareholders with a group of managers to manage the company, and with The tendency of these managers to maximize their own benefits at the expense of the shareholders, the financial reports began to lose their quality and the agency's problems increased.

Accounting conservatism is one of the most important accounting policies that the accounting thought has paid great attention to in recent years because of its tangible impact on improving the degree of relevance and reliability of published financial reports.

## Research problem

The intense of competition in the business environment today as a result of the great technological development, the openness of markets and the change in the tastes and desires of customers prompted many companies to control the costs of their products and this requires a shift from traditional methods of cost management to modern methods, and to achieve this the corporation needs to provide accurate and continuous up dating cost information to support the operational and strategic decision-making process, Since many studies have indicated that the traditional model of cost behavior suffers from some shortcomings in practical application, because the relationship between cost behavior and activity volume is not always a linear relationship, which means that the behavior of some types of costs may contradict the traditional model of cost behavior and thus shows the need for management to provide a model More realistic to explain the behavior of cost elements in order to provide management a clear information that helps in decision-making processes, in addition to the need to adhere to the accounting conservatism policy as one of the control tools that limit the irrational behavior of management in order to preserve the rights of shareholders and founders of the company. Therefore, the research problem crystallizes in answering the following research questions:

1- Is there asymmetric cost behavior in Iraqi industrial companies?

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- 2- What are the factors affecting the asymmetric behavior of adaptation in the Iraqi industrial companies?
- 3- What are the most important cost components that are more prone to asymmetric behavior?
- 4- How does the asymmetric behavior of costs affect the degree of accounting conservatism in financial reports?

### Research Objective

The main objective of the research is to identify the impact of the asymmetric behavior of costs on the level of accounting conservatism in the financial reports of Iraqi industrial companies. From the main objective, the following objectives are branched:-

- 1- Study and understand the asymmetric behavior of costs.
- 2- Identify the factors affecting the asymmetric behavior of costs.
- 3- Determine the cost items that are more likely to behave asymmetrically.
- 4- Understand how the asymmetric behavior of costs is reflected in accounting conservatism.

### Research Importance

This research deals with the concept of asymmetric behavior of costs as one of the main issues in management accounting and its reflection on the degree of accounting conservatism in financial reports, which enriches scientific research and opens the way for researchers to conduct many researches. The importance of this research also lies in an attempt to provide evidence from the Iraqi industrial environment about the impact of asymmetric behavior of costs on the degree of accounting conservatism in financial reports in order to help the company's stakeholders understand the asymmetric behavior of costs and its impact on the degree of accounting conservatism and to benefit from this understanding in making appropriate decisions.

### Research Hypothesis

Depending on the research problem and its objectives, the research hypotheses can be formulated as follows:-

- 1- Some cost items in the Iraqi industrial companies behave asymmetrically for costs.
- 2- The asymmetric behavior of costs affects the degree of accounting conservatism in the financial reports.

### Research Methodology

The researchers relied on the deductive and inductive approaches, where the deductive approach was used in the stage of reviewing and analyzing a part of the accounting literature represented by previous studies related to the subject of the research. The inductive approach was used to complete the practical side of the research to verify the validity of the hypotheses deduced from the theoretical side.

### Society and research sample

The research community is represented in a group of Iraqi industrial companies located in Basra Governorate. Accounting in Iraqi universities in Basra. With the use of the Purposive Sample, 53 questionnaires were distributed, all of which are 50 questionnaires, all of which are valid for study.

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## Previous Studies

### 1- Study (Loannis: 2018)

"Asymmetric Behavior of Costs and Ownership Structure in Greek Firms"

This study aimed to investigate and draw conclusions about the cost behavior of Greek companies, as the study sample consisted of all Greek companies listed on the Athens Stock Exchange for ten years 2008-2018. The study assumed that the cost in Greek companies behave asymmetrically (operating costs fluctuate asymmetrically with the fluctuation of sales revenue), but over time the phenomenon of asymmetric cost behavior tends to be smoother and disappear. The study assumed that the asymmetric behavior of costs is affected by market fluctuations. When companies bear more declines in revenues, the degree of asymmetry in costs decreases, which helps companies progress. A sample of companies was tested in terms of ownership structure and its impact on asymmetric behavior of costs. The study proved that the cost fluctuates with the fluctuation of revenues and market conditions as well. As for the ownership structure and its impact on the asymmetric behavior of costs, it was found that the effect is marginal and one of the possible reasons for this fact is that the majority of companies listed on the Greek Stock Exchange are family owned and all face the phenomenon of cost adherence independently of its ownership structure.

### 2- Study (Han, Rezaee & Tuo: 2018)

"Is the asymmetric behavior of costs associated with profit management expectations?"

This study aimed to investigate the relationship between the asymmetric behavior of the company's costs and its tendency to achieve the expectations of profit management. First, when management is optimistic about future performance, it tends to increase the asymmetric behavior of costs and wants to disclose this through the management of expected profits. The second explanation is that the asymmetric behavior of costs increases the inconsistency of information between management and investors, and therefore the management seeks to issue a profit management for the inconsistency of the information provided. The result of the statistical analysis of the data obtained from the company state database and the market data from the CRSP database between the year 2005 - 2016 indicated that the asymmetric behavior of costs is associated with the company's tendency to issue and repeat expected earnings management. The authors also found that the association between asymmetric cost behavior and profit management expectations is more noticeable when the cost of resource control is high and the company's efficiency is high.

### 3- Study (Dadson & Ardehir: 2019)

"The effect of managerial incentives on asymmetric cost behavior in Swedish companies."

This study examines the effect of incentives on the asymmetric behavior of costs and seeks to examine whether the asymmetric behavior of costs appears when managers are motivated to achieve profits. The study sample consisted of 192 companies for the time period 2014-2018. The results of the study showed that there is asymmetric behavior of costs in Swedish companies and that administrative incentives do not constitute a factor to avoid asymmetric behavior of costs, and this result leads to another question whether there are other variables that affect the asymmetric behavior of costs.

### 4- Study (EL-Habashy: 2019)

"The effect of accounting conservatism on the performance indicators of companies in Egypt"

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The study aimed to examine and determine the impact of accounting conservatism on the performance indicators of Egyptian companies, where data were collected from 40 non-financial companies for the period from 2009-2014. The performance indicators (return on assets / ROA) and (return on equity / ROE) were used, which represent measures of Accounting performance in addition to the use of Tobin Q, which measures market performance,

The results of the study showed that accounting conservatism has a significant positive impact on companies' performance indicators, and this reflects the positive impact of companies' performance on shareholders, which leads to a strong financial position for the company.

### 5- Study (Al-Zumar: 2020)

"Measuring the interactive effect of cost behavior asymmetry levels and profit management practices in real activities on the quality of accounting profits."

The study aimed to measure the impact of asymmetric levels of cost behavior and profit management practices in real activities and the interactive effect between them on the quality of accounting profits. The study was conducted on (46) industrial facilities registered in the Egyptian Stock Exchange during the period from 2014 to 2018. The study found that operating costs trace asymmetric behavior upwards, and that there is an inverse relationship between asymmetric behavior of costs and the quality of accounting profits, and that the interaction between asymmetric behavior of operating costs and profit management practices in real activities is related to an inverse relationship with the quality of accounting profits.

**In view of the foregoing**, the researchers believes that there is a research gap between the previous studies and the current research, which was represented by the failure to address any of the previous studies (to the knowledge of the researcher) linking the asymmetric behavior of costs and accounting conservatism in Iraqi industrial companies. Accordingly, the current research is a step on the way to complete the scientific research on the subject of asymmetric behavior of costs and its reflection on the degree of accounting conservatism in the financial reports of the Iraqi industrial sector.

### Asymmetric behavior of costs

#### concept of asymmetric behavior of costs

The traditional costing system classifies costs into variable and fixed, where the variable cost changes in proportion to the changes in the volume of activity, while the fixed cost in its entirety remains constant towards the change in the volume of activity (Soenjoto & Alfandri, 2019:28). However, many studies have provided evidence that some cost items respond to changes in activity asymmetrically according to the direction of this change (ups or downs). This phenomenon prompted many researchers around the world towards theoretical and applied studies to understand this asymmetric behavior to figure out concept, determinants and effects on the accuracy of cost measurement and decision-making (Montash, 2015: 10). Farther more, Anderson believes that the elements of costs are irregular or asymmetric when the degree of their response to the increase in the volume of activity by a certain amount is greater than the degree of their response to the decrease in the volume of activity by the same amount. This result is based on what was reached when examining the relationship between the behavior of selling costs and general and administrative on one hand and the change in sales revenue (activity volume) on the other hand.

Weiss also presented a second type of asymmetric behavior of costs and defined it as a type of behavior of cost elements that respond to an increase in the volume of activity by a certain amount less than their response to a decrease in the volume of activity by the same amount. The asymmetric

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behavior of costs is related to making a comparison between two directions of change in both the volume of activity and the costs. One of the two possibilities (Shaheen, 2018: 12): -

1- Regular behavior of costs: It occurs when the rate of change in the elements of costs and the volume of activity is equal in both directions, that is, the rate of change in costs up or down is equal to the rate of change in the volume of activity up and down. An example of this type of behavior for costs direct cost which have a regular relationship with changes in the volume of activity are an example of this type of cost.

2- Irregular behavior of costs: It occurs when the rate of change in costs and the volume of activity is not equal in both directions, meaning that the rate of change in costs up and down is not equal to the rate of change in the volume of activity up and down, and this type of behavior is divided into two parts:

A- The irregular behavior of upward costs. This type of behavior occurs when the degree of response of the cost elements to the increase in the volume of activity by a certain amount is greater than the degree of its response to the decrease in the volume of activity by the same amount, which is called the term Sticky cost)).

B - The irregular behavior of downward costs.. This type of behavior of cost elements occurs when the degree of response of the cost elements to the increase in the volume of activity by a certain amount is less than the degree of its response to the decrease in the volume of activity by the same amount, which is referred to by the term (anti-sticky cost).

The asymmetric behavior of costs comes as result of my decisions to keep or adjust the cost, where the decision to keep costs when the volume of activity decreases refers to the costs incurred by the establishment as a result of keeping them despite the lack of immediate benefit from them. The decision to adjust costs with a decrease in the volume of activity as a sum of the costs incurred by the corporation as a result of getting rid of some untapped resources, as well as the costs of re-acquiring them again at a time. Examples of this are end-of-service benefits for workers and contractual obligations resulting from the termination of some financial leasing contracts (Mohammed and Baghdadi, 2019: 13).

According to the foregoing, the researchers concludes that when measuring or estimating costs, the asymmetric behavior of costs must be taken into account and the response of cost items to change, increase or decrease with the change in the volume of activity, because this leads to the accuracy of the information contained in the financial statements.

### **The factors affecting the degree of uniformity of cost behavior**

There are several of factors that affect the asymmetric behavior of costs, which are drivers of the asymmetric behavior of costs. Several studies have proven that the asymmetric behavior of costs differs at the level of a single enterprise and between different business enterprises in their nature and also at the level of countries (Montash, 2015: 17 -15) At the level of a single facility, the degree of asymmetry in the behavior of costs in the basic departments of the facility is superior to that of the auxiliary departments, as the first depends on highly skilled human assets and more advanced machines, which makes the cost of future adaptation (dismissal and recovery) higher than the cost of maintaining it until the level is restored.

The asymmetric behavior of costs also differs with the different nature of the work of the corporation in terms of being industrial, commercial or service, as the costs of industrial facilities enjoy a high degree of asymmetry due to the density of fixed assets, labor and inventory. As well as relying on

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temporary resources and labor, allowing it to respond quickly to changes in demand at the lowest possible cost.

The degree of asymmetry in the behavior of costs is also affected by the size of the corporation. Large-sized corporation are relatively inflexible in the face of increased demand and product diversity without a clear increase in costs, especially indirect costs. They also face a major stagnation in reducing resources when demand decreases due to the high intensity of assets and labor, which increases the degree Cost behavior asymmetry. In small enterprises, the degree of cost asymmetry decreases, as it has sufficient flexibility to adapt to fluctuations in the volume and type of demand without an effective increase in cost due to its dependence on simple production methods and with a variable majority of cost items, which eventually leads to reducing the difference between the rate of cost change when the activity rises and falls (Bosch & Blandon, 2011: 420).

The degree of cost asymmetry is also affected by the economic climate of the country. Financial institutions, especially banks that operate in an unstable economic environment (a low growth rate such as Argentina) show a semi-symmetric behavior of costs with an increase or decrease in demand, while the degree of cost asymmetry rises in banks of countries with a high rate Medium (Brazil) or High (Canada) (Porporato & Werbin, 2010: 2-4). Farther more a study indicates that the economic dimension is not the only main reason for the difference in the degree of asymmetry of cost behavior between countries, but there are some laws regulating work in them. where the degree of asymmetry in the behaviour of costs increase in corporation that operate in countries with strict labour protection laws, whether temporary or permanent such as France and Germany, because those laws stand by decisions to retain at the expense of the decision to adapt to the workforce. On the Contrary corporation that operate in countries that have labor protection laws such as Switzerland, the management can ignore or circumvent them when deciding to lay off workers, which makes the cost of adaptation less than the cost of retaining labor and thus the level of asymmetry of cost behavior decreases (Banker et al, 2013: 10).

The degree of asymmetry of cost behavior is also affected by the strength and weakness of the internal control system, as the degree of asymmetry is significant in corporations with a weak control system, unlike corporations with a strong control system because the weak internal control system affects the degree of cost asymmetry through two axes:

**The first axis:** It is represented in the low quality of information through the production of inaccurate, incomplete and inappropriate reports, which limits the managers' ability to predict the future and harmonize between the available and required capabilities. It also increases the degree of uncertainty about the future of the facility and the demand for its products, which leads to delays Management's decision to reduce stagnant resources when demand is expected to decrease due to lack of information about the sustainability of the decline and, consequently, the degree of cost asymmetry.

**The second axis:** The corporation's lack of a strong control system gives a good opportunity for managers to act according to opportunistic behaviors to achieve more personal benefits by increasing expenditures that maximize their rewards, even with the expectation of reduced demand, taking advantage of the possibility of erasing abnormal spending by using loopholes in the weak system, which resulting is an increase in the asymmetry of cost behavior (Kim et al, 2014:3).

According to the foregoing, it becomes clear to the researchers that the asymmetric behavior of costs is a characteristic of certain corporations due to the characteristics of those corporations (the nature of the industry, size, competition, the control system and labor laws, etc.).

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## Cost Items That Tend To Behave Asymmetrically

There are items of costs that have been repeated in most of the previous studies that show asymmetric behavior, and they are:

- 1- Cost of goods sold: (Weidenmier and Subraniam, 2003) concluded that if the cost of goods sold has a significant change in sales revenue, it shows asymmetric behavior, but if the change in sales revenue is simple, it does not show such behavior in cost Goods sold.
- 2- Overhead costs: Overhead costs are the first cost item to show asymmetric behavior. (Noreen and Soderstom, 1994) through his study to track the state of costs in a number of American hospitals, revealed this behavior and then confirmed this behavior in a more extensive study 1997 on another sample of hospitals using a temporal accumulation of a time series of activities.
- 3- Operating costs: The results of the study conducted by (Calleja et al, 2006) showed that operational costs are one of the costs items that show asymmetric behavior - random - between stickiness and slippage, and this appears clear if the data being studied cover a short period of time. However, the longer the period of time covered by the study, the lower the degree of asymmetry in the behavior of this item, then came a study (Kama & Weiss, 2013) confirming these results.
- 4- Selling, administrative and general costs: It can be said that all the studies that dealt with the behavior of costs acknowledged the asymmetric behavior of this item.
- 5- Labor cost: Labor cost is one of the cost items with asymmetric behavior, according to what many studies and research have shown in this field.
- 6- The cost of research and development: Since the cost of research and development is one of the costs that the administration is free to increase or decrease due to its connection with the future vision of the corporation, the administration may resort to increase costs case that the volume of activity tends to rise and it becomes difficult to reduce it significantly if the volume of activity decreases and thus These costs exhibit asymmetric behavior with changes in the volume of activity.
- 7- The cost of property, equipment and capital machinery: It does not differ much from the cost of research and development, as it is also subject to the administration's freedom of action, but when the volume of activity decreases, the administration can reduce the volume of resources, but it will not be able to get rid of the costs of those assets, which shows the asymmetric behavior of the cost.

Based on the foregoing, the researchers concludes that any cost item can behave asymmetrically when its behavior is not directly proportional to the change in the volume of activity (increase or decrease) and in the same proportion.

After the concept of asymmetric behavior of costs has been presented in terms of its definition and the statement of the factors affecting it and the presentation of the most important cost items that are more inclined to asymmetric behavior, it is necessary to know how the asymmetric behavior of costs affects the degree of accounting conservatism in the financial reports of industrial companies and this is what will be addressed in next part.

## Accounting conservatism - its importance and justifications for its use

The accounting literature differed in its definition of accounting conservatism, as it was defined by Basu (1997) as the tendency of accountants towards their request for a higher degree of verification to recognize profits than recognizing losses, whereby losses are recognized faster than profits are recognized at a time when the market reflects profits and losses at the time they occur and without bias. Givoly & Hayn.2000) defined accounting conservatism from the perspective of the income

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statement as the choice between alternatives and accounting policies that lead to a decrease in the disclosed accumulated profits by postponing the rate of revenue recognition and accelerating the rate of recognition of expenses. As for Beaver & Ryan, (2005) they defined accounting conservatism as the continuous decline in the book value of net assets from their market value from one period to another, even in light of long-term considerations, which results in the existence of expected goodwill that is not recorded in the books (Mohammed, 2019: 13).

The importance of accounting conservatism arises from the fact that it arises as a result of the uncertainties that prevailed in accounting practices, in order to organize the selection process between accounting alternatives and the choice of the alternative that leads to not exaggerating the valuation of assets and net income, in addition to reducing the optimism of management and its tendency to exaggerate the evaluation of some elements of the financial statements to protect the users of Financial statements from misinformation (Al-Moussawi, 2016: 41).

Many studies have emphasized the importance of adopting conservative accounting policies without exaggerating their application, for many justifications, the most important of which are the following (Miliji, 2014: 11):-

- 1- Reducing the opportunistic behavior of the management, as the recent period witnessed the collapse of many international companies due to some practices by their managements that are a clear violation of the accounting reservation.
- 2- Improving the quality of accounting information by reducing information asymmetry, improving the quality of profits and increasing the ability to predict cash flows.
- 3- Accounting reservation contributes to achieving some advantages for business corporations, as it is considered part of the contractual relationship between the business and other parties, avoids suing its creditors and reduces the amount of taxes imposed on it.

The researchers concludes that accounting conservatism prevents high estimates of profits, as it limits profit management and reduces the problem of information asymmetry.

#### **Factors affecting accounting conservatism**

There are several of factors that affect accounting conservatism, the most important of which are the following (Obeid, 2017: 12-13):-

- 1- Accruals.. which are obligations related to services received that have not yet been paid, as the reservation tries to increase the profits announced in the subsequent periods for the loss-making companies by charging items that may have a negative impact in the future expenses in the current period, which further exacerbates the results of the period current.
- 2- Governance. It is an integrated system of financial and non-financial control through which the company is managed and controlled. It is a set of contractual relations that link the company's management, its shareholders and stakeholders, through finding procedures and structures that are used to manage the company's affairs and direct its business in order to Ensure the enhancement of performance, disclosure, transparency and accountability in the company and maximizing the long-term benefit to shareholders, taking into account the interests of the various parties (Ezz El-Din and El-Sharif, 2019: 237). The relationship between corporate governance and accounting conservatism is a positive one, given that the application of corporate governance at a high level means that the accounting conservatism policy is applied at a high level as well.

3- Debt contracts.. The companies' reliance on debt financing in preference equity financing and resorting to debt contracts from banks is a positive evidence of an increase in the level of accounting conservatism, as accounting conservatism can increase the efficiency of debt contracting.

4- Investment efficiency.. The accounting conservatism policy improves investment efficiency by limiting excessive investment by managers. Conservatism restricts management's ability to exaggerate the valuation of assets and current net profits, as managers often tend to continue operating losing projects because leaving them can effect on current income or acquisitions, the manager's benefits such as managerial reputation and goodwill. Here, the role of conservatism emerges as a constraint that forces managers to recognize the losses resulting from those projects with poor performance in a timely manner, and this reduces the managers' desire to continue working in them (Saleem, 2017: 385).

5- Legislation and laws.. Legal legislation has a positive relationship with accounting conservatism, as the application of accounting policies subject to a regulatory environment that adheres to legal legislation affects the level of conservatism in that company, and the institutional environment can also affect the accounting conservatism by affecting the incentives Reporters.

6- The Board of Directors.. It is the supreme body that manages and governs the company and bears the responsibility of monitoring and following up the implementation of the objectives set by the general assembly of shareholders. The factors that affect the reservation can be classified into two groups, the first group of factors at the market level, including legal and environmental system, and the second group They are company-wide factors such as the company's particular demand for conservative reports.

7- Agency theory .. It is a model that shows the relationship between the shareholder (the owner) in his capacity as the principal and the administration as the agent and is based on the assumption of the self-interest of individuals, and the agency theory is defined as a contract whereby one or more persons engage (authorize) another party to perform services on his behalf and involves: Delegating some decision-making power to the agent. The agency theory assumes that the interests of the principal and the agent may not coincide, as both try to maximize their individual interests by all means. The asymmetry and consistency of information is one of the main factors of agency problems, as management can access more information than the owners or shareholders, because the administration has an informational advantage because it participates In the day-to-day operations of the corporation, this problem can be mitigated by observing the opportunistic behavior of the agent or by aligning interests between principal and agent (Menicucci & Paolucci, 2018: 556-559). Accounting conservatism helps mitigate disputes between stakeholders.

### **The effect of asymmetric behavior of costs on accounting conservatism**

After presenting the concepts of asymmetric behavior of costs and accounting conservatism, the researcher finds that the asymmetric behavior of costs is associated with accounting conservatism and affects it through two factors: agency theory and profit management style. According to agency theory, Anderson (2003) study showed that managers' decisions to keep unused materials may be due to their personal motives, which lead to a form of agency costs (which are costs that are incurred by the corporation due to the self-interest of managers and their decisions that lead to maximization of benefit). their own but not optimal decisions from the perspective of shareholders) and thus managers may choose to keep untapped resources when the volume of activity decreases which may lead to asymmetric cost behaviour, i.e. personal motives of managers lead to a high degree of asymmetric cost behaviour. The separation of ownership from management and delegating the principal the right

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to manage the corporation to a specialized group of managers (the agent) led to a fundamental difference in information between the owners and managers, which results in asymmetry of information, which prompted the principal to bear the agency costs for setting mechanisms to monitor the agent's actions and motivate him to The performance of his interests also led to the adoption of the policy of accounting conservatism when preparing financial reports to reduce the gap between the principal and the agent (Miliji, 2014: 11).

The asymmetric behavior of costs affects the degree of accounting conservatism according to agency theory, as follows (Montash, 2015: 98-100) and (Kama & Weiss, 2013: 2-3): -

1- Free cash flow.. If the available cash exceeds the cash required to fund projects that achieve a positive net present value, managers will use this cash to finance projects with a negative present value instead of distributing it to shareholders.

2- The length of time the executives remain in their work.. This means their transformation into a controlling force that extends its influence in the corporation and provides an opportunity to build alliances and accumulated forces and thus influence the decisions of the board of directors and control mechanisms.

3- The strategy of remuneration of the executives.. If the income that the executive directors receive during the year is constant, the agency's problems and conflicts will be reduced, and the capacity will be increased to an unexaggerated degree according to economic studies in response to the increase in demand. Also, the untapped energies, including the cost, are reduced when a decrease is expected. The demand is to avoid losses and in preference to the continuation to a quiet life, which makes the cost behavior closer to symmetry. Conversely, if the income that the executives receive during the year is not fixed (variable based on the volume of activity), the managers will seek to increase investments (ie, increase costs) to achieve the return that provides them with power and prestige, and thus asymmetric cost behavior arises.

Based on the foregoing, it can be said that the asymmetric behavior of costs is directly proportional to the free cash flow and the length of CEO tenure in office, while it is inversely proportional to the stability of managers' income.

With regard to the method of profit management and its impact on the asymmetric behavior of costs, the study of Koo, 2011 clarified that the reports of corporations that include different levels of profits or losses have different motives for managing profits, and these motives affect the behavior of costs. In corporations in which losses have been reported, managers may follow two strategies related to costs. The first is that management will try to avoid losses by getting rid of surplus resources or reducing costs significantly with lower sales, and thus the degree of asymmetric behavior of costs decreases. The second strategy is recognition of losses. The management of the corporations exaggerates and reports large losses so that it can increase the possibilities of achieving profits in the future, bearing the losses of the current period as part of the burdens of previous periods, and thus may show a significantly asymmetric cost behavior (Zaki, 2019: 797). As for the relationship of accounting conservatism with profit management, some accounting literature has mentioned that accounting conservatism reduces managers' motives in inflating profit estimates for fear of losing the competitive advantages that accounting conservatism has achieved for them when concluding contracts with lenders and suppliers at the lowest possible cost and in order to preserve their job positions. Management to punish managers and expose them to accountability if they manipulate profits (Hammad, 2018: 18).

From the foregoing, the researchers concluded that the asymmetric behavior of costs affects the accounting conservatism policy. Firms whose costs are characterized by asymmetric behavior have low profits, unlike firms whose costs do not behave asymmetrically, and this is due to the impact on managers' desire to exercise accounting conservatism that prevents them from being overly optimistic. For earnings and more reliable earnings reporting. If the management of the corporation tends to exaggerate the recognition of losses, it results in an increase in the asymmetric behavior of costs, but if it tends to increase profits, it must reduce its costs when the volume of activity decreases, and thus the asymmetric behavior of costs decreases.

## Field Study

### First: Description of the research community

The research community is represented in a group of Iraqi industrial companies located in Basra Governorate. Accounting in Iraqi universities in Basra .Using the Purposive Sample, (50) individuals were chosen distributed in multiple categories, and this society was chosen to research this category for research purposes and its adequate knowledge of the topic of research and enables researchers to distribute 53 questionnaires, 50 questionnaires were recovered, all of which are valid for study.

### Second: Description of individuals - research sample

The description of the members of the research sample aims to clarify the most important characteristics of the sample members through what included the questionnaire form in the first part, including a set of general information related to the research sample personnel, including information related to scientific rehabilitation, job and years of service, and the following is a description of that information:-

Table No. (1) The basic characteristics of the search sample vocabulary

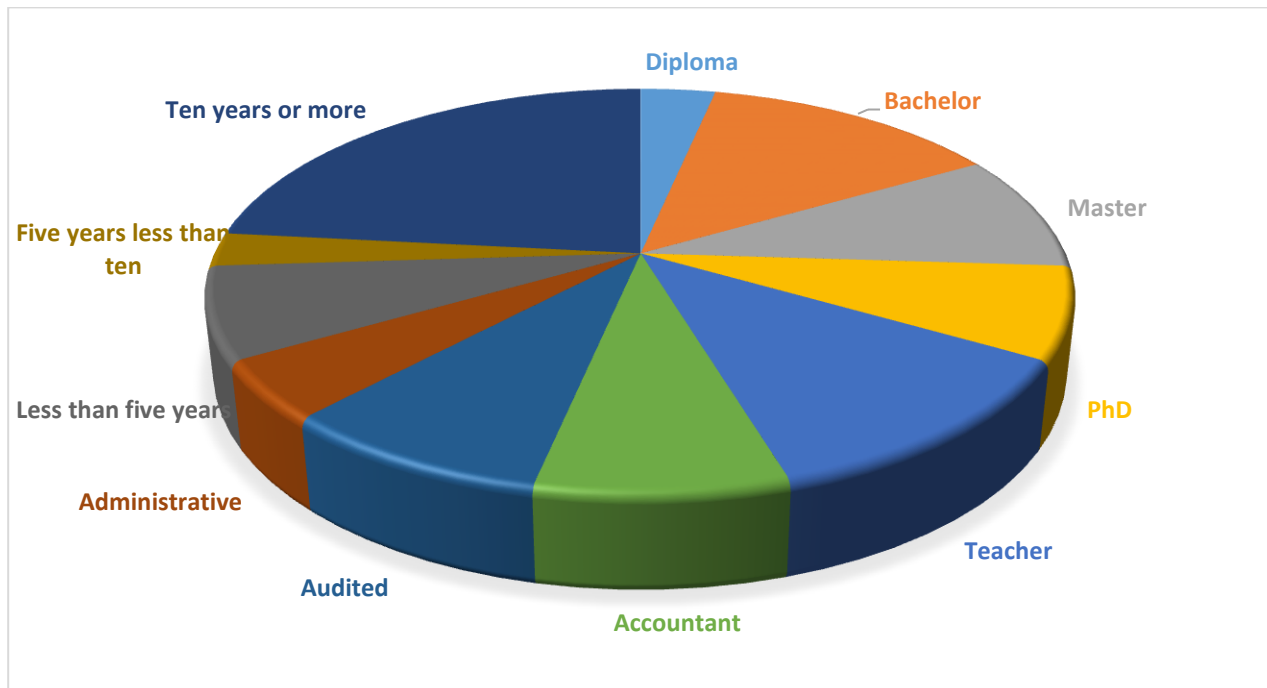
Variables		Frequency	Percent
scientific qualifications	Diploma	5	10.0
	Bachelor	20	40.0
	Master	14	28.0
	PhD	11	22.0
Job	Teacher	18	36.0
	Accountant	12	24.0
	Audited	13	26.0
	Administrative	7	14.0
Years of Experience	less than five years	11	22.0
	Five years less than ten	4	8.0
	Ten years or more	35	70.0

Source: Preparing researchers based on the results of the field study

From Table No. (1) it turns out that 40.0 % of individuals who answered the questionnaire questions carry a bachelor's degree and then followed by 28.0 holding a master's degree, followed by 22.0 holders of a doctorate and this indicates that all members of the sample carry a high scientific qualification that helps them to know the subject search.As for the job variable, the highest percentage of 36.0 % are Academic title holder, and this result indicates that individuals who answered the questionnaire questions have a precise accounting specialization that qualifies them to answer the questionnaire questions professionally. With regard to the variable of practical experience, it reached the highest percentage of the category within ten years or more, which is 70.0

%, and this is a good indication for answering the questionnaire questions, and they are well aware and knowledgeable about the topic of research, as shown in the figure below:

Figure No. (1) Demographic variables of the research sample



Source: Preparing researchers based on the results of the field study

### Third: The stability and honesty test for the search variables

The honesty and internal stability test using the Cronbach's ALPHA test for the questionnaire questions indicates the ability to rely on the research sample, as the table below indicates that the stability coefficient ranges between 0.638 and 0.818, which is greater than the minimum acceptable statistically, which equals 0.6.

Table No. (2) values of stability and honesty transactions for search variables

Search questions	Number of questions	Cronbach's Alpha	Extraction
Some costs in Iraqi industrial companies have an asymmetric behavior.	10	0.638	0.5094
The asymmetric behavior of the costs affects the degree of accounting reservation of financial reports of Iraqi industrial companies.	8	0.818	0.6011

Source: Preparation of researchers based on the results of the statistical analysis of the SPSS V 21 program

### Fourth: Analysis the search results

For the purpose of analysing the values of the computational averages of the questionnaire questions, the Fisher scale has been used by determining the weights of answering the questionnaire questions of (1-5) and as shown in the table below:

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Table No. (3) Distribution of the answer degrees to the questionnaire form

I totally agree	I agree	neutral	I do not agree	I totally do not agree
5	4	3	2	1

The questionnaire was divided into two parts, the first that includes the personal information of the respondent such as (scientific qualifications, job, Years of Experience). As for the second section of the questionnaire form, it included a set of questions related to testing research hypotheses, as this group consisted of (18) questions divided as follows:

Table No. (4) divide the questionnaire questions according to research hypotheses

No.	The hypothesis	Its Questions
1	Some costs in Iraqi industrial companies take an asymmetric behavior	(1-10)
2	The asymmetric behavior of the costs affects the degree of accounting reservation of financial reports of Iraqi industrial companies	(11-18)

#### Fifth: The descriptive analysis of the research sample to test the research hypotheses

In this part, the descriptive analysis of the research sample answers is performed and determined whether the research hypotheses were achieved or not, as the statistical analysis was used by calculating the standard medium, standard deviation and T value to test the research hypotheses and as follows:

1. Test the first hypothesis, which states (some costs in Iraqi industrial companies take asymmetric behavior)

Table No. (5) descriptive analysis of the research sample answers regarding the first hypothesis

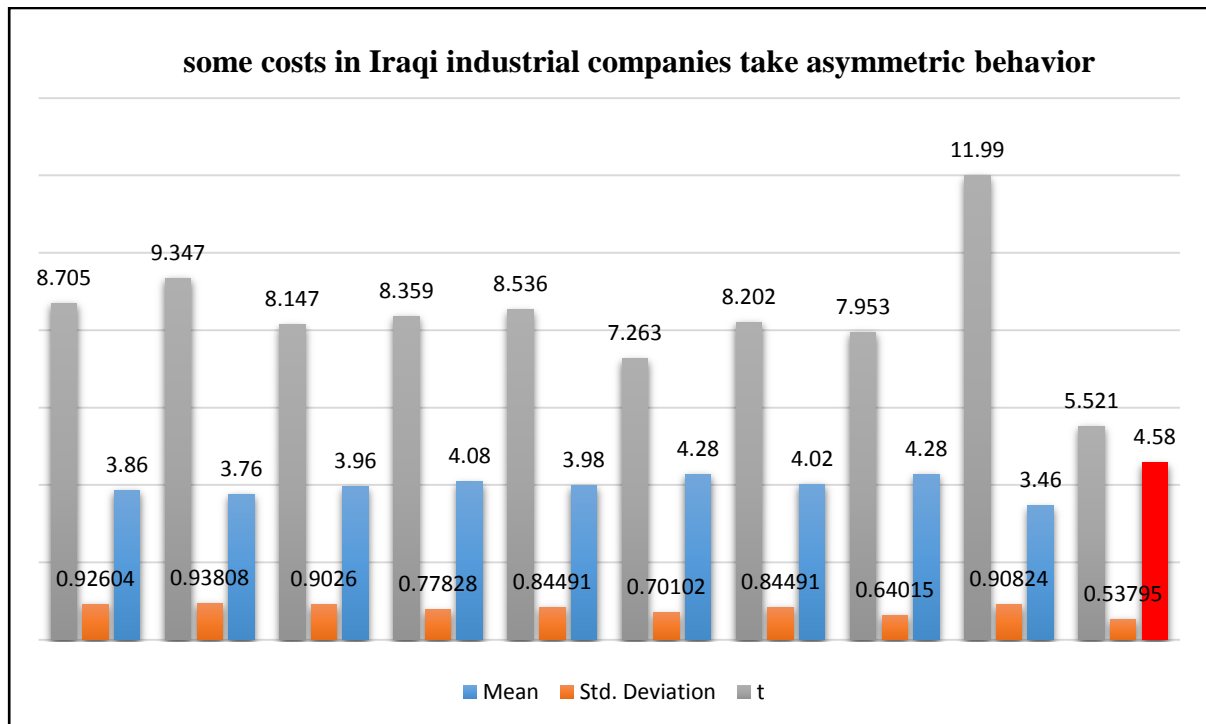
NO.	Questions	Mean	Std. Deviation	T	Sig.
1	Understanding cost behavior is necessary to assist the company's management in planning, control and decision –making.	4.5800	.53795	5.521	.000
2	There is awareness among the financial and cost -effective community of some costs.	3.4600	.90824	11.990	.000
3	The cost behavior is related to studying how cost changes when there is a change in the level of the company's activity.	4.2800	.64015	7.953	.000
4	The relationship between some costs of costs and the size of the activity is not identical, but changes randomly with the change in the volume of activity by increasing or deficiency.	4.0200	.84491	8.202	.000
5	The cost of sold goods from the items of the likely costs to take an	4.2800	.70102	7.263	.000

	asymmetric behavior towards the activity volume changes.				
6	Public expenditures of the items of the likely costs are considered an asymmetric behavior towards the activity volume changes.	3.9800	.84491	8.536	.000
7	The operating costs of the items of the likely costs are to take an asymmetric behavior towards the activity volume changes.	4.0800	.77828	8.359	.000
8	The costs of employment are the provisions of the likely costs to take an asymmetric behavior towards the activity volume changes.	3.9600	.90260	8.147	.000
9	Research and development costs are possible costs to take an asymmetric behavior towards activity changes.	3.7600	.93808	9.347	.000
10	The costs of spending on equipment and machines are a possible cost of the items to take an asymmetric behavior towards the activity volume changes.	3.8600	.92604	8.705	.000
	total	4.026	0.8022	8.4023	0.00

Source: Preparation of researchers based on the results of the statistical analysis of the SPSS V 21 program

From Table No. (5) it is clear that the calculation of the questions combined (4.026), according the Likart scale, which is followed to measure the answers of the respondents for the questionnaires, this means that all members of the sample agree that some of the costs in Iraqi industrial companies take an asymmetric behavior and through the question ( Understanding cost behavior is necessary to help the administration in planning, monitoring and decision -making), as the mathematical milieu reached 4.5800 and with a standard deviation (0,53795) and the value of T (5.521) and a moral degree (0.000) which is less than the level of significance (0.05). In the chart below:

Figure No. (2) results of the first hypothesis test



The second hypothesis test, which states (the asymmetric behavior of the costs affects the degree of accounting reservation of financial reports of Iraqi industrial companies)

Table No. (6) descriptive analysis of the research sample answers regarding the second hypothesis

NO.	questions	Mean	Std. Deviation	T	Sig.
1	The separation of ownership from the administration and the delegate the owner to manage the company by group of managers and eventually this cause fundamental difference in information between the owners and the managers and owner affording the agency's costs for setting up mechanisms to monitor the agent's actions.	4.1600	.81716	7.269	.000
2	The personal motives of managers lead to a high degree of asymmetric behavior, as managers may choose to retain unused resources when the activity volume decreases with the aim of maximizing their own benefit.	4.2000	.85714	6.600	.000
3	The conditions of the uncertainty associated with the economic environment in which the corporation mainly affect managers' decisions regarding keeping or disposal of some resources when a decrease in	4.2000	.69985	8.083	.000

	future demand occurs.				
4	Administration decisions related to optimism and pessimism about the economic conditions of the company and the excesses confidence of managers lead to exaggeration in positive impact of their expectations about the future on the asymmetric behavior of the costs.	3.9400	.99816	7.509	.000
5	5- The level of asymmetric behavior of costs increases if the administration's expectations are optimistic with regard to the estimates of the total demand level and the growth of revenue and vice versa, as the level of asymmetric behavior of the costs decreases if the administration's expectations are pessimistic with regard to estimates of the level of total demand and the growth of revenue.	3.8600	.98995	8.143	.000
6	The length of the period of the survival of the managers in their work leads to their transformation of dominating force that extends its influence in the corporation and controls the levels of activity, which shows an asymmetric behavior of the costs.	4.1800	.96235	6.025	.000
7	The strategy of Managers' rewards leads to their manipulation in the level of resource use and thus the emergence of asymmetric behavior of the costs.	3.9800	.97917	7.366	.000
8	Ignoring the asymmetric behavior of the costs lead to increases the profit expectations gap, as the high levels of asymmetric behavior of the costs negatively affect the profits of the current period and positively over periods of increased levels of activity.	4.1200	.84853	7.333	.000
	total	4.08	0.8940	7.291	0.000

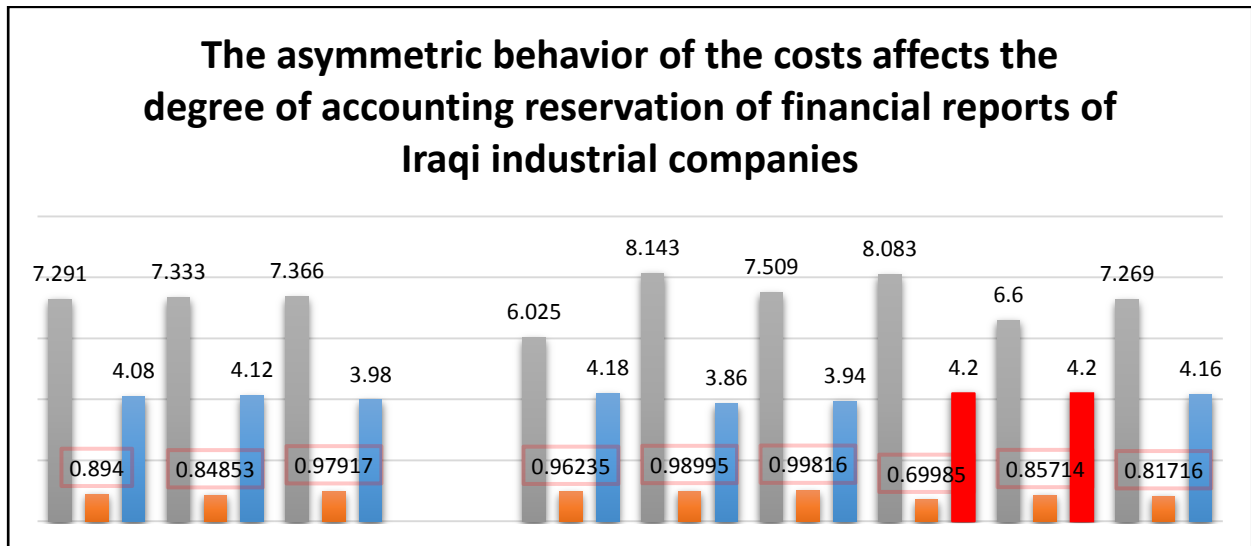
Source: Preparation of researchers based on the results of the statistical analysis of the SPSS V 21 program

Through Table No. (6), it is noted that the calculation of the questions combined (4.08), according to the Likart scale, the five -year scale used to measure the answers of the respondents for the

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questionnaire, this means that all members of the sample agree on (that the non -analogous behavior of the costs affects the degree of accounting reservation of financial reports of Iraqi industrial companies) Among the most influential questions are (2, 3), where the mathematical milieu reached (4.2000) and with a standard deviation(0.85714 ,0.69985), The level of significance (0.05). As shown in the figure below:

Figure No. (3) results of the second hypothesis test



### The conclusions

1. The asymmetric behavior of the costs is affected by internal, external, financial and non-financial factors such as the nature of the activity and the agency's problems.
2. Some of the costs are more inclined towards asymmetric behavior when changes in the volume of activity occurred, such as the cost of the goods sold, operating costs and research and development costs.
3. Accounting reservation is used to reduce non-confirmation cases related to misleading financial statements.
4. Accounting reservation works to prevent high estimates of profits and limit profit management and agency problems.
5. The asymmetric behavior of the costs affects the degree of accounting reservation through the theory of the agency and the profits management method.
6. The personal motives of managers lead to a high degree of asymmetric behavior, as managers may choose to retain the unexploited resources when the volume of activity decreases in order to maximize their own benefit.
7. Weakness of the financial and cost -effectiveness community in Iraqi industrial companies in the concept of asymmetric behavior of costs.

### Recommendations

1. The researchers recommend the importance of taking into consideration the asymmetric behavior of some of the costs of costs in the stages of planning costs and oversight in order to control them and note the extent to which some costs respond to change by increasing or deficiency with the



change in the volume of activity because this leads to the accuracy of the information contained in the financial statements and maximizing the return on investments.

2. Emphasizing the need to educate users of financial statements about the importance of accounting reservation.
3. Emphasizing the importance of increasing the knowledge of the financial and costly society in Iraqi industrial companies in the concept of asymmetric behavior of costs through the work of seminars and discussions to determine the contents of this concept.
4. The researchers emphasize the importance of including the concept of asymmetric behavior of the costs in the academic decisions of administrative accounting subject in Iraqi universities to teach students how to deal with this concept, its causes and the factors affecting it.

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