Effect of Accounting Conservatism on Financial Leverage: Evidence from Listed Pharmaceutical Companies in Nigeria

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Abstract

This study examines the impact of accounting conservatism on financial leverage among listed pharmaceutical companies in Nigeria. Using a quantitative research approach, secondary data covering an eleven-year period from 2012 to 2023 were collected from selected pharmaceutical companies listed on the Nigerian Exchange Group (NXG) as of December 2023. Panel regression analysis was employed to analyze the data. The findings indicate a significant negative correlation between accounting conservatism and financial leverage, suggesting that companies with higher levels of conservatism tend to maintain lower leverage. This relationship is particularly evident in firms experiencing greater operational uncertainty and volatility, implying that conservative accounting practices may act as a risk-mitigating strategy. The study contributes to the understanding of how accounting principles influence financing decisions in emerging markets, offering valuable insights for stakeholders in the pharmaceutical sector and policymakers seeking to enhance financial stability. Based on the findings, the study recommends that management should avoid overoptimism or exaggerated uncertainty in decision-making and adopt a cautious approach when considering funding options for rapid growth.

Keywords: *Accounting Conservatism, Financial Leverage, Financial Stability, Pharmaceutical Companies, Nigeria*

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Introduction

The principle of conservatism implies that when faced with uncertainty, accountants should err on the side of understating rather than overstating assets and income and should anticipate and recognize losses rather than gains. Conservatism has historically been one of the central principles of accounting, which follows logically from the objective of creditor protection by keeping book values of net assets relatively low to avoid hidden reserves and provisions. It is often used to assess the quality of a company's accounting. It is one of the most prominent characteristics of financial reporting that has influenced accounting practice for centuries in the area of the recognition of profits versus losses. This conservative approach aims to provide a more realistic and prudent representation of a company's financial position and performance (Ruch & Taylor, 2015; Fu & Liu, 2017; Abdolkarimi *et al.*, 2024). Accounting conservatism is a principle in financial reporting that suggests that accountants should exercise caution when recognizing and reporting financial transactions and events. The effect of accounting conservatism on leverage, which refers to the use of debt financing by a company, has been a topic of interest and debate among researchers and practitioners (Ain*et al.*, 2020; Atwa *et al.*, 2022). More so, accounting conservatism, characterized by the recognition of expenses and liabilities more promptly than revenues and assets, is posited to influence corporate financial decisions, particularly in the context of leverage. The relationship between conservatism and leverage can be examined from various angles, including the impact of conservatism on debt capacity, risk management, and capital structure decisions.

One of the key ways in which accounting conservatism can affect leverage is through its influence on a company's debt capacity. By understating assets and income, conservatism may lead to a more conservative assessment of a firm's creditworthiness by lenders. Lenders may view a company as having lower collateral values and lower earnings potential, which could result in a reduced ability to access debt financing. As a result, companies that adopt conservative accounting practices may have limited access to debt capital and may need to rely more heavily on equity financing (Watts, 2003). Moreover, conservatism can also affect leverage by influencing a company's risk management decisions. Conservative accounting may lead to earlier recognition of losses and provisioning for potential risks. By recognizing losses and provisioning for risks earlier, companies can mitigate the adverse impact of uncertainties

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on their financial position. This proactive risk management approach can enhance a company's ability to manage debt obligations and reduce the likelihood of financial distress. Consequently, conservative accounting practices may lead to lower levels of leverage as companies take a more cautious approach to managing their financial risks. The effect of accounting conservatism on leverage, which refers to the use of debt financing by a company, is a subject of interest and debate among researchers and practitioners. Accounting conservatism involves the cautious recognition and reporting of financial transactions and events, with a tendency to understate assets and income and anticipate and recognize losses rather than gains. While conservatism aims to provide a more prudent representation of a company's financial position and performance, its impact on leverage remains a matter of investigation. Understanding the effect of conservatism on leverage can provide valuable insights for companies, investors, and creditors in making informed decisions regarding financing choices, risk management strategies, and capital structure decisions.

Furthermore, the relationship between accounting conservatism and leverage can also be explored in the context of capital structure decisions. Conservative accounting practices may affect a company's perceived financial stability and risk profile, thereby influencing the preferences of investors and creditors. Investors seeking lower risk may be attracted to companies with conservative accounting practices, leading to a higher demand for their equity and potentially reducing the need for debt financing. On the other hand, creditors may view conservative accounting as a signal of financial prudence, which could result in more favorable borrowing terms and lower interest rates. In this way, conservatism may indirectly influence a company's leverage by affecting its capital structure choices. More so, it is important to note that the relationship between accounting conservatism and leverage is complex and can be influenced by various factors, including industry dynamics, regulatory requirements, and management discretion. Examining the relationship between accounting conservatism and leverage provides valuable insights for companies, investors, and creditors. It helps in understanding the implications of conservative accounting practices on financing choices, risk management strategies, and capital structure decisions. By considering the potential effects of conservatism on leverage, stakeholders can make more informed decisions regarding financing alternatives and assess the financial stability and risk profile of a company. Therefore, further research is needed to explore these nuances, investigate potential moderators and mediators,

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and provide a more comprehensive understanding of the relationship between accounting conservatism and leverage.

Despite the growing body of literature examining the relationship between accounting conservatism and financial leverage, significant gaps remain, particularly within the context of emerging markets like Nigeria. Most existing studies predominantly focus on developed economies, where accounting practices and regulatory frameworks differ markedly from those in Nigeria. This creates a need for research that specifically addresses the unique challenges and dynamics faced by Nigerian pharmaceutical companies. Furthermore, while some studies have explored the effects of accounting conservatism on financial performance and capital structure, few have directly linked these concepts to leverage in the pharmaceutical sector. The industry itself is characterized by high uncertainty and risk, thus warranting a focused investigation into how conservatism may impact leverage decisions in this specific context. Additionally, there is limited empirical evidence concerning the role of external factors, such as market conditions and regulatory environments, in moderating the relationship between accounting conservatism and financial leverage. Understanding these external influences is crucial for comprehensive insights. Furthermore, the relationship between firm characteristics such as size, growth opportunities, and profitability and the conservatism-leverage relationship remains underexplored in the Nigerian context. Addressing these gaps will provide a more nuanced understanding of how accounting practices influence financial decision-making in the pharmaceutical sector and contribute to broader discussions on corporate governance and financial stability in emerging markets. Hence, this study examined the effect of conservatism on the leverage of listed pharmaceutical companies in Nigeria.

Literature Review

Accounting Conservatism

Accounting conservatism is defined as anticipate no profit but anticipate all losses. However, accounting conservatism in this extreme form has been traded in for a less severe form. Nowadays, accounting conservatism is viewed as an asymmetry in the level of verification needed to recognize gains and assets on the one hand and losses and liabilities on the other. To recognize gains or assets, a higher level of verification is required relative to the recognition of

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expenses or liabilities (Watts, 2003). As a consequence of the asymmetry in the level of verification required, losses will be anticipated in a timelier manner relative to gains. This means that profits are not acknowledged until there is a verifiable legal claim that these profits will actually be generated. However, this does not mean that absolutely no profit is being recognized before the revenues are actually received. The recognition depends on verifiability. Accounting conservatism could also be defined as the selection of conservative accounting methods (Givoly *et al.*, 2007). Accounting conservatism can be unconditional and conditional. Unconditional conservatism is news-independent (ex-ante). The book value of net assets on the statement of financial position is understated due to stringent recognition criteria and specific accounting methods (for measurement) being used. This means that at the beginning of an asset's life cycle, a specific accounting method is being used, which leads to a lower book value than the market value during the lifetime of the asset. Moreover, conditional conservatism does depend on news (ex post) and has an impact on the income statement. For instance, depreciations will be taken as soon and as much as possible to lower the results. An example of this is that, under unfavorable circumstances, the book value of assets will be written down. However, under favorable circumstances, the opposite is not true. The book value of assets will not be written up then.

Financial Leverage

Financial leverage, according to Al-Slehat (2019), is the measure of debt utilization in a firm's capital framework. While this focuses on the amount of debt to equity in a firm's capital framework, it emphasizes the role of borrowed funds in financing the company's operations and growth. This shows the significance of debt usage in a firm’s operations with its potential impact on growth and profitability. While this focuses on the debt as a component of leverage, it does not address risk and other factors associated with a firm’s choice of leverage. Conversely, Ghofir and Yusuf (2020) defined financial leverage as firms’ ability to use fixed-expense assets and/or funds (debt and/or special shares) to fulfil firms’ wealth maximization goals. This focuses on all types of debt that can be used in financing a firm’s operations. It also recognizes the broad range of financial instruments that can be leveraged beyond traditional debt. However, Ghofir and Yusuf (2020) provided a comprehensive approach to what makes up debt but ignored the risks associated with leverage. In this regard, the study described

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financial leverage as the strategic use of debt and other fixed-cost financial instruments within a firm's capital structure.

Accounting Conservatism and Financial Leverage

Accounting conservatism influences leverage through several mechanisms. One key pathway is through its impact on a company's debt capacity. Conservative accounting practices, such as recognizing losses early and understating asset values, may lead to a more conservative assessment of a firm's creditworthiness by lenders. This conservative assessment can result in reduced access to debt financing, as lenders may perceive lower collateral values and earnings potential. Consequently, companies adopting conservative accounting practices may rely more heavily on equity financing, leading to lower levels of leverage. Another way in which accounting conservatism affects leverage is through its influence on risk management decisions (Rahimpour *et al.*, 2023). Financial leverage is a financing tool involving debt. When a company borrows debt, creditors alway anticipate earnings returns from the borrowed funds. Agency theory explains the conflict between managers, shareholders, and investors, and managers are also monitored by creditors. For creditors and shareholders, a company with high financial risk tends to have high financial leverage (Nguyen & Phan, 2024). In positive accounting theory, a company with high leverage tends to shift future profits to the present, limiting the impact of debt covenants on the company's value. If a company has high financial leverage, it can reduce its appeal to investors due to concerns about repayment risk unless attractive and convincing business plans are presented to investors. Sajid *et al.* (2016) noted that high-growth companies can utilize leverage for investment as they have sufficient cash flows to mitigate the risks associated with leverage. A decrease in a company's attractiveness would lead to reduced company and stock values, accordingly decreasing the market-to-book ratio. A lower ratio indicates less conservatism.

Additionally, accounting conservatism can influence leverage by shaping a company's capital structure decisions. Conservative accounting practices may signal financial prudence and stability to creditors, potentially resulting in more favorable borrowing terms and lower interest rates. Investors seeking lower risk might also be drawn to companies with conservative accounting practices, increasing the demand for equity financing. Consequently, companies may adjust their capital structure in response to the perceived advantages of conservatism,

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which can, in turn, affect their leverage position (Beatty et al., 2008). This study remains relevant by examining the effect of accounting conservatism on the leverage of listed pharmaceutical companies in Nigeria.

Research Hypothesis

H_0: There is no significant effect of accounting conservatism on leverage of listed pharmaceutical companies in Nigeria.

Theoretical Framework

This study underpinned on Positive Accounting Theory (PAT) due to the fact that, PAT seeks to explain and predict accounting practices based on empirical observations rather than prescriptive norms. It emphasizes the behavior of economic agents, focusing on the motivations behind accounting choices and their implications for financial reporting and decision-making. More so, the relationship between PAT and accounting conservatism posits that firms choose accounting methods based on their economic consequences. By adopting conservative accounting practices, firms may signal lower risk to creditors, potentially affecting their leverage ratios. Also, PAT suggests that managerial behavior is driven by incentives, such as compensation structures, debt covenants, and market expectations. PAT addresses the role of information asymmetry between managers and stakeholders. The firm's leverage, as lenders and investors may react favorably to conservative financial reporting (Khajavi *et al.,* 2022; Iskandar *et al.,* 2023). According to PAT, market participants respond to accounting disclosures based on their predictions of firm performance. If pharmaceutical companies in Nigeria adopt conservative accounting, it may lead to lower perceived risk and, thus, greater access to debt financing. This relationship underscores the practical implications of accounting choices on leverage outcomes. In addition, PAT emphasizes the significance of contextual factors in shaping accounting practices. In the Nigerian pharmaceutical sector, unique market conditions, regulatory frameworks, and economic challenges may influence the extent to which conservatism impacts financial leverage. This necessitates an understanding of the local context to fully grasp the dynamics at play.

Empirical Review

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Studies have been carried out on accounting conservatism and leverage in developed and developing counties. For instance, Watts (2003) gives a detailed description of the relationship between debt contracts and conservatism. The study showed that firms take too much risk by unwarrantedly distributing dividends or purchasing their own shares, which leads to low equity, which leads to more risk for lenders. It also aligns with the conclusion of the research of Ball, Robin, and Sadka (2008). More so, Ahmed, Billings, Morton, and Stanford-Harris (2002) find that conservative accounting practices can help mitigate conflicts between bondholders and shareholders, leading to lower levels of leverage and reduced debt costs. Dechow and Dichev (2002) find that conservative accounting practices can improve the quality of accruals, reduce estimation errors, and enhance risk management. The research of Li (2009) observed that the more conservative a country's financial reporting system is, the lower the average cost of capital is. In addition to the different demands of the lenders and the equity market, Ahmed et al. (2000) stated that firms that face more bond holders' shareholder' conflicts are more conservative. Shareholders are primarily focused on yield and dividends. Similarly, Nikolaev (2010) observed that bondholders are likely to be more concerned about loss recognition. Salama and Putnam (2015) investigate the effect of accounting conservatism on the degree of financial leverage. A panel data regression analysis is conducted for the period 2000–2006. It provides empirical evidence that conservatism is positively associated with the degree of financial leverage.

According to Ahmed and Duellman (2007), higher leverage leads to higher potential conflicts between shareholders and equity holders, impacting the need for conservatism. When funded through debt, managers concentrated on presenting 'favorable' financial reports when asset values and profits increased to reassure creditors. Researchers like Ahmed and Duellman (2007), Gigler *et al.* (2009), and Geimechi and Khodabakhshi (2015) found an inverse relationship between financial leverage and accounting conservatism. The relationship between financial leverage and accounting conservatism has also been examined in a number of studies, but the research results are also different. According to the previous studies, such as Ge *et al.* (2019), Dang and Tran (2020), Octavia (2022), and Pujiono *et al.* (2023), financial leverage positively affects accounting conservatism, while Khalifa *et al.* (2022) claimed that financial leverage negatively affects accounting conservatism.

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However, Fu and Liu (2017) revealed that accounting conservatism generally exists in China's listed companies, and the higher the degree of accounting conservatism, the smaller the information risk faced by investors, and the required investment rate of return will be reduced, resulting in a lower cost of equity capital. In addition, Ramalingegowda and Yu (2018) examine the relation between accounting conservatism and firm capital structure adjustments, and the study revealed that firms with more conservative financial reporting adjust their capital structure toward the target more quickly, especially within firms that rely more on external financing for adjustments.

A review of existing literature reveals that most studies on accounting conservatism and leverage have been conducted in developed countries, with limited research focusing on emerging economies such as Nigeria. This study fills this gap by highlighting the benefits of accounting conservatism in the context of the relationship between firms and lenders. It also explores the role of accounting conservatism in addressing bondholder-shareholder conflicts over dividend policy and reducing the cost of debt. By examining these dynamics, this study contributes to the existing body of literature on the impact of accounting conservatism on leverage. Additionally, it provides valuable insights into how accounting conservatism can inform our understanding of leverage determinants and influence financing decisions in emerging market contexts.

Methodology

This study examines leverage and accounting conservatism among pharmaceutical companies listed on the Nigerian Exchange Group (NXG) as of December 2023. A purposive sample of 10 pharmaceutical companies was selected based on the availability of data from 2012 to 2023. An ex-post facto research design was employed, utilizing a panel data approach to combine cross-sectional and time-series data. Secondary data were collected from the financial statements of the selected companies, including the statement of financial position, income statement, and statement of cash flows. The data were analyzed using descriptive statistics (frequencies, percentages, means, and standard deviations), Pearson Product Moment Correlation Coefficient (PPMCC) to assess the relationship between leverage and accounting conservatism, and panel regression analysis to evaluate the variation between dependent and independent variables. The variance inflation factor was used to assess multicollinearity.

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Model Specification

This study model was adapted from the work of (Fu & Liu, 2017) with little modification. Accounting conservatism will be measured using Basu (1997) model.

FLEV= f (ACCT CONS, ROE, LIQ, FZ, FG) (1)

The econometric form of the model is captured as:

$FLEV = \beta_0 + \beta_1 ACCT\ CONSit + \beta_2 ROEit + \beta_3 LIQit + \beta_4 FZit + \beta_5 FGit + \alpha$. (2)

Where:

FLEV= Financial Leverage

ACCT CONS= Accounting Conservatism

ROE= Return on Equity

LIQ= Liquidity

FZ= Firm Size

FG= Firm Growth

β_0 = Constant

β_1, β_2, β_3, β_4, β_5= Slope coefficient

μ = Error term

Table 1. Measurement of Study Variables

Variable	Acronym	Measurement	Sources
Dependent			

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Firm Leverage	FLEV	Long-term debt divided by total asset	Shittu and Amao (2022)
Independent			
Accounting Conservatism	ACCT CONS	$\underline{EPS}= \alpha_0 + \alpha_1 DR_{it} + \beta_0 R_{it} + \beta_1 R_{it} DR + \varepsilon_{it}$ P_{it} where Δ*EPSit* accounting earnings per share for firm *i*year*t* Δ*Pit* opening stock market price for firm *i*year*t* Δ*Rit*stock markets return for firm *i*year*t* Δ*DRit*dummy variable that is equal to zero [0] if the stock market returns for firm *i*in year *t* is positive or equal to zero, and one [1] if the stock market returns for firm*i*in year *t* is negative.	Qian *et al.* (2021)
Control			
Return on Equity	ROE	net income/shareholder equity	Onifade *et al.* (2023)
Current ratio	LIQ	current assets/total assets	Fu and liu (2017)
Firm Size	FZ	Natural log of sales in number of selected firms	Onaolapo and Shittu, (2022)
Firm Growth	FG	Firm's revenue	Shittu *et al.* (2023)

Authors' Compilation (2025)

Results and Discussion of Findings

Descriptive Analysis

This section discusses the descriptive statistics for both the explained and explanatory variables of interest. Each variable is assesses based on the mean, standard deviation, minimum, maximum, skewness and kurtosis.

Tables 2. Descriptive statistics

Variables	Leverage	Acct. Cons	ROA	Liquidity	Firm Size	Firm Growth

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Mean	15.8597	3.7913	9.9577	1.8826	4.6096	17.4023
Standard Deviation	11.6766	5.1562	10.1876	1.9908	1.2131	16.0320
Minimum	0.0848	0.0100	1.1355	0.1241	1.2523	0.1082
Maximum	68.1841	43.5800	85.6384	14.9873	25.5626	92.112
Skewness	1.5712	2.8819	3.5448	2.6889	6.6645	1.7308
Kurtosis	5.9643	13.6876	19.0162	11.2126	118.4742	6.6365

Source: Authors' computation (2025) and output of STATA 15

The average leverage is 15.8597, with minimum and maximum values of 0.0848 and 68.1841, respectively. The standard deviation of 11.6766 indicates a wide spread around the average value. Similarly, the minimum and maximum values for accounting conservatism are 0.0100 and 43.5800, respectively. The standard deviation of 5.1562 shows a wide spread around the average value of 3.7913. In the case of control variables, return on asset, liquidity, firm size, and firm growth show average values of (9.9577, 1.8826, 4.6096, and 17.4023) with standard deviation values of (10.1876, 1.9908, 1.2131, and 16.0320). The gaps between the maximum and minimum clearly show that the sampled companies are similar. In addition, all the study variables were positively skewed, which shows that most of the data used for the study is on the right side of the normal curve. Furthermore, kurtosis values imply that most of the study variables, such as firm size, return on assets, and accounting conservatism, were highly picked.

Correlation Analysis

In assessing the relationship between the study variables, Pearson correlation coefficient (correlation matrix) was used as presented in the Table 3 below.

Table 3. Correlation Analysis

	Leverage	**Acct. Cons**	**ROA**	**Liquidity**	**Firm Size**	**Firm Growth**
Leverage	1.0000					
Acct. Cons	0.2772	1.0000				
ROA	0.4309	0.3353	1.0000			
Liquidity	0.1679	0.2708	0.1975	1.0000		
Firm Size	0.1893	0.2118	0.0687	0.1225	1.0000	
Firm Growth	-0.1171	-0.0045	0.0486	-0.1097	-0.0148	1.0000

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Source: Authors' computation (2025)

In the case of accounting conservatism and leverage correlation, Table 3 shows that there exists a positive and moderate association between leverage and accounting conservatism (LEV/ACCT CONS = 0.2772). Also, there exists a positive and strong association between leverage and return on assets (LEV/ROA = 0.4309). Similarly, there is a positive and moderate relationship between leverage and liquidity (LEV/LIQ = 0.1679). More so, the correlation results show that there is a moderate and positive relationship between leverage and firm size (LEV/FS = 0.1893). However, firm growth had a moderate and negative relationship with leverage (LEV/FG = -0.1171). Since the correlation test does not capture the cause-and-effect relationship, regression results were employed to test the hypothesis formulated. The study model focuses on estimating the effect of leverage on accounting conservatism with ROA, liquidity, firm size and growth. The study employed panel regression analysis as shown in the Table 4 below since the data had both time series and cross-sectional.

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Table 4. Regression Results

Variables	Poled OLS	Fixed Effect	Random Effect
C	3.79 (0.000)	6.71 (0.000)	5.61 (0.000)
Acct. Cons	3.16 (0.002)	0.85 (0.397)	-7.55 (0.000)
ROA	11.33 (0.000)	5.93 (0.000)	1.71 (0.088)
Liquidity	0.93 (0.351)	0.24 (0.808)	0.62 (0.538)
Firm Size	4.11 (0.000)	0.56 (0.577)	1.38 (0.167)
Firm Growth	-4.06 (0.000)	-1.82 (0.070)	-2.37 (0.018)
F-statistics	48.21 (0.000)	8.47 (0.000)	78.73 (0.000)
R- Square	0.24	0.35	0.37
VIF Test	1.11		
Heteroscedasticity	37.58 (0.000)		
Hausman Test	Prob>chi2= 9.31(0.09)		

Source: Authors' computation (2025)

Effect of Accounting Conservatism on Financial Leverage

Table 4 shows the OLS pooled regression, and the R-squared value of 0.24 indicates that about 24% of the systematic variations in leverage in the pooled companies over the period of interest were jointly explained by the independent variable. This implies that leverage in listed pharmaceutical companies in Nigeria cannot be 100 percent explained by accounting conservatism and our control variables. The unexplained part of the leverage can be attributed to the exclusion of other independent variables that can impact the leverage but were excluded because they were outside the scope of this study. The F-statistic value of 48.21 and its associated P-value of 0.00 show that the OLS regression model overall is statistically significant at the 5% level, which means that the regression model is valid and can be used for statistical inference. More so, the table above shows a mean VIF value of 1.11, which is less than the benchmark value of 10. This indicates the absence of multicollinearity. Also, from the table above, it can be observed that the OLS results had heteroscedasticity problems since their probability value was significant at 5% (37.58/0.00). The presence of heteroscedasticity clearly shows that our sampled companies are not homogeneous. This therefore means that a robust or panel regression approach will be needed to capture the impact of each company's heteroscedasticity on the results. In this study, we adopted the panel regression method using

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both fixed and random effect models. The results from the panel regression, as shown in Table 3, are discussed as follows.

The F-statistic and wald-statistic values of 8.47 (0.00) and 78.73 (0.00) for fixed and random effect models, respectively, show that both models are valid for drawing inference since they are both statistically significant at 5%. In the case of the coefficient of determination (R-squared), it was observed that 35% and 37% of systematic variations in leverage are explained by the independent variable in the fixed and random effect models, respectively. This therefore implies that more of the variation in leverage was explained when compared to the OLS pooled regression. The results also confirm that accounting conservatism and our control variables are not the only factors that drive leverage since about 65% is still not explained. In testing for our formulated hypothesis or the relationship between the dependent and independent variables, the two widely used panel data regression estimation techniques (fixed effect and random effect) were adopted. In selecting from the two panel regression estimation results, the Hausman test was conducted, and the test is based on the null hypothesis that the random effect model is preferred to the fixed effect model. A look at the p-value of the Hausman test (0.09) implies that we should adopt the random effect panel regression results in drawing our conclusions and recommendations. This also implies that the random effect results tend to be more appealing statistically when compared to the fixed effect. Following the above, the discussion of the random effect results became imperative in testing our hypothesis as follows:

Accounting conservatism (random effect = -7.55 (0.00) as an independent variable to financial leverage appears to have a negative and significant effect on financial leverage. This therefore means we should reject hypothesis (H1: There is no significant effect of accounting conservatism on financial leverage of listed pharmaceutical companies in Nigeria). This implies that an increase in the accounting conservatism of listed pharmaceutical companies in Nigeria decreases the leverage of such companies. This results agrees with prior empirical results such as (Habib & Hossain, 2013; Geimechi, & Khodabakhshi, 2015; Nur solichah & Fachrurrozie, 2019; Meilinda *et al.,* 2022; Nguyen & Phan, 2024). However, the results did not tally with previous findings of various researchers that report positive effect of accounting conservatism on financial leverage such as (Salama & Putnam, 2015; Ramalingegowda & Yu, 2018).

In the case of our control variables, return on asset (random effect = 1.71 (0.088)) as a control variable for leverage appears to have a positive and insignificant influence on leverage. This suggests that an increase in the ROA of a pharmaceutically listed company in Nigeria will also lead to increases in leverage, but this is not significant. Similarly, liquidity (random effect = 0.62 (0.538)) appears to have a positive and insignificant effect on leverage. This suggests that an increase in the liquidity of pharmaceutically listed companies in Nigeria will also lead to increases in leverage, but not significant. More so, firm size (random effect = 1.38 (0.167)) appears to have a positive and insignificant influence on leverage. This implies that an increase in the ROA of pharmaceutically listed companies in Nigeria will also lead to increases in leverage, but not significant. However, firm growth (random effect = -2.71 (0.018)) shows a negative and significant effect on leverage. This suggests that an increase in the firm growth of pharmaceutically listed companies in Nigeria would significantly lead to a decrease in the leverage of such companies. This result aligns with the prior empirical results, which show that firm growth has a negative and significant effect on leverage (Habib & Hossain, 2013). but differ from the work of Rahayu and Indragunawan (2018).

Conclusion and Recommendations

This study highlights that accounting conservatism negatively impacts financial leverage among listed pharmaceutical firms in Nigeria, suggesting that firms with higher conservatism tend to maintain lower leverage. Based on these findings, it is recommended that management adopt a more cautious and conservative approach when making financing decisions, avoiding overoptimism or exaggerated uncertainty. This strategy could help reduce financial leverage and mitigate associated risks.

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