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Original Article

A Comparative Study of Accounting Conservatism in Private and Public Companies with Governmental and non-Governmental Ownership

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ABSTRACT

This study examines the impact of accounting conservatism as one of the qualitative characteristics of accounting information on the performance of companies listed on the Stock Exchange of Tehran. For this purpose, a total of 125 companies were selected in 2009 to 2014 when yields their data were analyzed using multivariate regression model and by the observational data using fixed effects. The results of research hypothesis testing showed that conservatism and investment efficiency variables and future investment of firms studied had significant impacts.

Introduction

Qualitative characteristics of accounting information have played an undeniable role in improving the quality of information of financial statements. One of the qualitative characteristics of accounting information is accounting conservatism.

It is claimed that accounting conservatism has important role about the usefulness of information for decision making and in particular evaluation the duty of director stewardship (Watts, 2013). He believes that accounting conservatism is an important feature to improve the quality of accounting information. In his view, non-conservative accounting standards allow managers of business units to win accounting figures over their view

such as profit, to get more rewards. Positive accounting assume that accounting conservatism came into existence by requiring verifiable capability to identify high- income or low verifiable ability to recognize cost relating to compensation contracts between shareholders and managers. He knows conservatism as effective way in contracts between companies, creditors and shareholders that protects them against management opportunities. He believes that the conservatism is a tool, which can improve organizing of a business unit and contracts to be followed around it. Conservatism cause to recognize company' s loss timely and reduce the likelihood of insolvency and the collapse of them. Conservatism leads to a quick indication of any

problem and thus allow shareholders to take timely action to resolve the issue (Watts, 2003).

The theoretical and empirical literature

Conservatism

Conservatism is a buffer reaction, which is used in a lack of confidence and tries to show that uncertainty and inherent risk in the company situation sufficiently rose. According to many researchers, this cautious reaction could have important information and play an important role when there is lack of the information asymmetry between the financial statement preparers. According to the researchers, conservatism has conservative role of information should be viewed as a write indication from management to users (Shurvarzi and Barzegar Khandvzy, 2009).

Public companies

Companies that their constituents provide part of the company's capital by selling stock to the public (Madras et al., 2008).

Private companies

Companies that all their funds are provided at the time of establishment exclusively by constituents which these companies called private company (Madras et al., 2009).

Research background

Garcialara et al., (2010) studied company's investment efficiency and accounting conservative and found that more conservative corporations are less inclined to have too much and too little investments. In addition, they found a positive relation between conservatism and productivity and found no evidence that companies are more conservative, have investments in less risky projects.

Ruch and Taylor (2011) by reviewing the research done in the field of accounting conservatism faced with different findings about the usefulness of accounting conservatism in improving the quality of financial statements such that the conservatism of the accounting through the creation of accounting reserves such reserve of bad debt, would manage the earnings.

On the other hand, it concluded that conservatism can reduce information asymmetry and improve transparency in the disclosure of financial statements. Their results show that accounting conservatism can be used as a default efficient mechanism to prevent conflicts of interest between managers and shareholders, shareholders and creditors.

Kordestani and AmirBegay (2008) studied the relationship between profit asymmetry and MTB as two criteria of conservative assessment. The findings contrary to predictions showed that, by increasing the durations of model estimation does not help to have positive relationship between these two conservative assessment criteria. Therefore, the results were not approved align the two criteria. Hasani (2013) studied the relationship between investment cash flow sensitivity and accounting conservatism. The results showed that there is significant negative relationship between the index of investment cash flow sensitivity and accounting conservatism index. These findings are consistent with efficient contracts point of view, so that companies with a higher degree conservative reporting, will have less cash flow sensitivity.

Research Hypotheses

The main hypothesis: Accounting Conservatism has a significant impact on public and private companies listed on Tehran Stock Exchange with governmental and non-governmental ownership.

Special assumptions

Accounting Conservatism has a significant impact on future investment of public and private companies listed on Tehran Stock Exchange with governmental and non-governmental ownership. Accounting Conservatism has a significant impact on investment efficiency of private and public companies and listed on the Tehran Stock Exchange with governmental and non-governmental ownership.

Research Methodology

The method used in this research is descriptive-correlation, because the relationship between variables will be investigated. In terms of the purpose is an applied research type and by the application of ex post facto (through the historical information). Also data collection method is checking the records (library). The statistical population includes all companies listed on the Tehran Stock Exchange and in periods of 2009 to 2013 that the numbers of 125 companies were selected by systematic removal method.

Research model

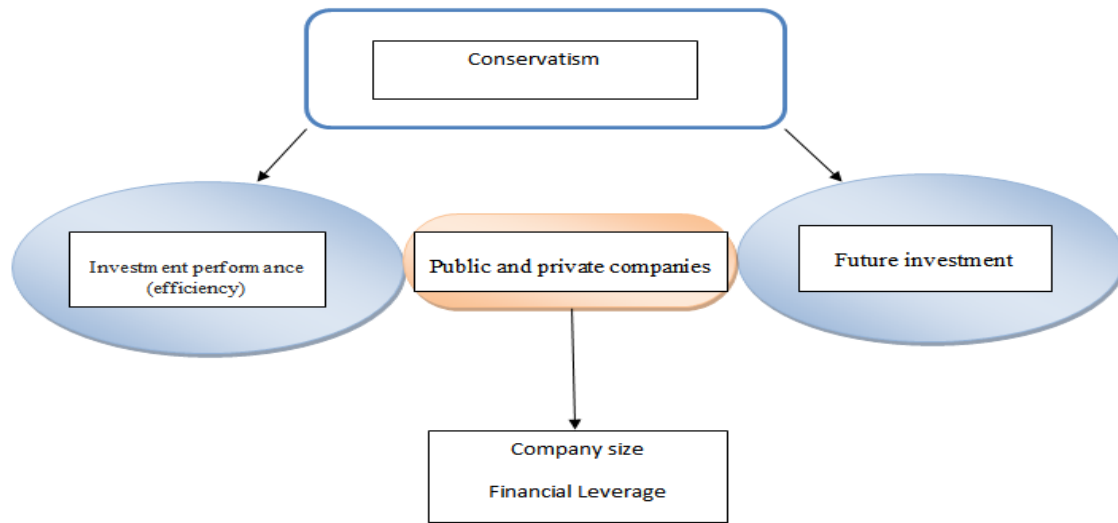


Figure1. Research Conceptual Model

Table1. Research variables

Source	The method of calculation	Operational definition	variable	Variable type
Basu (1997)	conservative accounting is calculated by dividing the accounting accrual to total assets first period multiplied by (-1)	conservative is the clear Featuring of financial reporting that during the centuries has influenced the theory and practice of accounting	Accounting conservatism (AC)	Dependent
Basu (1997)	for Investment calculation is used the rate of return and risk formula	Investment	investment	independent
	FI : future investment			
	IP : Investment performance			
The purpose is the logarithm of properties		SIZE	Company size	control
The purpose is the ratio of debt to total assets		DEBT	Financial leverage	

Research findings

Descriptive Statistics

After collecting the data and calculating the variables used in the research, descriptive parameters of each variable is calculated separately. These parameters include information on the central tendency such as

mean, median, as well as information on indicators of dispersion, such as standard deviation, skewness and kurtosis. Table 2, shows the Descriptive statistics of the variables studied for 125 sample corporations in exchange for period of 6 year-old.

Table 2. Descriptive statistics of research variables

The criteria for distribution figures		Measure of dispersion	The focus criteria		Variable name
Prominence	skewness	Standard deviation	median	Mean	
1.88	-0.12	4.41	16.58	16.30	Accounting conservatism
1.89	0.06	4.36	15.10	15.06	Future investment
2.71	0.13	2.8	21.02	20.94	Investment performance
1.91	-0.13	4.50	15.01	14.71	Company size
9.94	-1.71	0.11	0.82	0.79	Financial leverage

Analysis Results

F test Limer

First, to determine that the panel model is efficient in model estimation, or compilation data methods, the Chow test is used.

Table 3. Chow test results for the regression model

results	Significance level	Degrees of freedom	Test statistic	Regression model
Using of Panel model	0.000	(124, 621)	253.14	

As shown in Table 3, Chow test significance level is less than $\alpha = 0.05$, so, therefore estimate the model is approved by Panel method at 95 %.

Hausman test

Given that the chav test the null hypothesis that the intercept was denied equality , In order to detect the presence of fixed effects or random effects Hausman test is used.

Table 4. Hausman test results for the regression model

results	Significance level	Degrees of freedom	Test statistic	Regression model
Unknown	1.000	6	0.000	

As shown in Table 4, significance level of Hausman test is calculated (prob=1.000), so, the Hausman test does not have the ability to choose between using a fixed or random effects , and other criteria should be used in this

regard. To this estimate the model with random effects and then measured the ability of random effects in explanation the relationship between model variables.

Table 5. The ability to estimate random effects model for regression model

Rho	Effect properties
0.58	Random effects explained
0.42	Unexplained random effects

As shown in Table 5, random effects model does not able to explain for 42 % of model variations, so we must use the fixed effects for model estimation .

Research findings

Based on the F Limer and Hausman test results, the model is estimated based on panel data approach with fixed effects. The results of estimating the model is provided in the table 6. The research model, test the impact of accounting conservatism on future investment

and investment efficiency. F value of regression that show the explanatory power of the model, for this model the probability statistic is less than 0.01, so it can be said that this model was significant and valid at 99% confidence level. See also the Durbin-Watson statistic (1.12) also confirms the fact that there is no correlation between the disturbing components, because this amount is between 1 and 3.

Table 6. Results of regression model Fitness

The response variable = AC			
Significance level	The t test statistic	The regression coefficients	Independent variables
0.000	-75.45	-22.19	(α)equation constant
0.01	2.57	0.009	Future investment
0.000	382.89	1.97	Investment performance
0.000	-4.49	-0.01	Company size
0.000	-9.45	-3.42	Financial leverage
F test statistics = 1193.48		Significance level = 0.000	
Watson- Durbin statistic : 1.12		The coefficient of determination = 0.99	

Summary of results and proposals

The first hypothesis test studied the effect of accounting conservatism on private and public companies listed on the Stock Exchange of Tehran's governmental and non-governmental ownership. According to the verified hypothesis can be concluded that accounting conservatism has effect on private and public companies listed on the Tehran Stock Exchange with governmental and non-governmental ownership.

The result is according to research conducted by LaFond, and Roychowhury (2010) and Hasani (2013),that in their study have realized significant impact of the hypothesis. The second hypothesis of this study was to evaluate the effect of accounting conservatism on future investment of public and private companies listed on Tehran Stock Exchange with governmental and non-governmental ownership. According to the verified hypothesis can be concluded that accounting conservatism has significant impact on future investment.

Also according to the research literature, the result is according to research conducted by Lara Garcia et al. (2010) and Rach and Taylor (2011) that in their study have realized significant impact of the hypothesis. The third hypothesis of this study was to test the effect of accounting conservatism on the investment efficiency of private and public companies listed on the Tehran Stock Exchange with governmental and non-governmental ownership. According to the verified hypothesis can be

concluded that accounting conservatism has significant impact on investment efficiency. The result is according to research conducted by LaFond, and Roychowhury (2010) and Etema and Farajzadeh (2012) that in their study have realized significant impact of the hypothesis. According to the results of the study can be recommended that by accounting conservatism to improve of supervision on investment decisions through reducing investment, where managers are willing to invest more than limit and it also facilitates access to cheap foreign financing through investment increase of where managers tend to have lower than the limit. Given that this specific research is studied on private and public companies with governmental and non-governmental ownership, it is recommended that the researchers to study manufacturing and service companies as well. Also, it is recommended that we study the research based on models of other the calculating accounting conservatism methods such as Accruals -based criteria, non-operational accruals -based criteria and criteria based on market value and measure the results compare them together in addition to Basu's model.

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