

The Investigation Impact of Conditional and Unconditional Conservatism on Accounting Profit Transparency

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Abstract: The objective of this study, is the investigation impact of conditional and unconditional conservatism on accounting profit transparency in the Tehran stock exchange. Therefore, Basu and Givoly and Hayn Model have been used for conditional conservatism and unconditional conservatism and ability of profit explanation in the current period and current period profit changes for stock returns (Barth Model) have been used as index of accounting profit transparency. Moreover in this study, financial leverage, firm size is used as control variables. This is an applied and causal research considering its type and method. Tehran stock exchange listed firms constitute statistical population of the research. The sample was selected using systematic exclusion sampling method and imposing conditions of the research variables to 75 firms of 18 industries during 2006-2011. Statistical technique of panel data regression was used to analyze data and test the hypotheses. According to the results, conditional conservatism does significant and positive affect the accounting profit transparency and also unconditional conservatism does not affect the accounting profit transparency.

Key words: Conditional conservatism, unconditional conservatism, accounting profit transparency, industries, Iran

INTRODUCTION

Information has a fundamental role in markets performance because most decisions, such as decisions to invest in capital market, decisions to enter or exit to the industries by the rivals, financing method (through debts or owners equity) and making decisions about information revealing level are useful for the users. Information which entails qualitative characteristics, such as reliability and relatedness is useful. One of the constituents of reliability of information is the observation of conservatism which is considered to be a cautiousness principle by technical committee of accounting standards on Iran. In theoretical concepts of financial reporting cautiousness is termed, as a degree of preserving which is needed for judging to estimate in ambiguous situations. Recent researches have divided conservatism into 2 types of conditioned and unconditioned. Basu (2005) stated that conservatism means a different approval for recognizing revenues and costs which results in understatement of earnings and assets.

Conditioned conservatism which is, also called post incidental or conservatism depending on news means the more in time recognition of bad news compared to good news where there exists profit (loss). For example, the immediate recognition of losses in contracts is of this type. Another type of conservatism is unconditioned or

pre-incidental or independent of news conservatism. This type of conservatism is resulted from the utilization of those accounting standards which reduce profits independently regarding economic news, such as the immediate recognition of research and development expenses or advertisement expenses as costs and not as assets.

There are 2 completely different perspectives regarding accounting conservatism. Some researchers consider conservatism to be useful for the users and analysts of financial statements and believe that it has an informing role. Some others consider it to be useless for the suppliers and users of financial statements. The proponents of the 1st perspective believe that conservatism will result in increasing the volume of the reported information in bonds markets and improving information transparency and financial reporting quality on the part of management and also profits reduction resulting from earnings management. On the whole, the proponents of conservatism approach believe that conservatism will cause an increase in information content and lack of information asymmetry between the suppliers and the users of financial statements. On the contrary, the opponents of conservatism approach believe that conservatism will cause the reduction of financial reporting quality and this can accompany great losses for the investors and other users of financial statements.

The statement of the problem: The role of financial information transparency of companies has become increasingly important during recent years. Low transparency and low quality of financial information creates situations through which decision making becomes difficult for investors and they encounter ambiguities. Today no one can ignore the importance of the transparency of financial reporting because the investors and creditors make their important decisions based on financial information of the companies. They want more and transparent information about firm performance. Transparency has a positive effect on firms performance and can preserve the benefits of stockholders.

Bushman *et al.* (2004) consider information transparency, as a situation where information is broadly accessible, related, reliable, concisely qualified and in time. Aksu (2006) believes that transparency means being in time and enough revealing of financial and operational performances of the company, following standard and Poor's definition.

Barth *et al.* (2008) described earnings transparency, as the concurrent change in earnings and in profitability regarding stock return.

Manages, as the authorities to supply financial statements having complete information about financial status of the company and having a higher level of information compared to the users of financial statements, potentially try to show a desirable image of the business unit. For example, they may cause the reduction of costs and the reporting of more profits in financial statements through applying costs of a period as assets. Also, it is possible to report assets and capital of a business unit more than the real amount. The overall result of this operation will be a better image of the business unit than the real one and the incentives to invest capitals and financial resources through external organizational individuals into the company will increase. In such, a situation the principles and approaches of accounting supported by the devising referents of accounting standards use conservatism concept to adjust the optimism of managers, support the rights of beneficiaries and fair presentation of financial statements. If conservatism is applied appropriately, as a mechanism it will result in resolving many agency problems and information asymmetries. Regarding the importance of the role of conservatism, it is necessary to have some criteria to measure it exactly in financial reporting.

Regarding the recent financial inability of great and international companies, such as Aeron and Worldcom on the one hand and the number of frauds in financial reporting on the other hand, there have been some

concerns about the quality of financial reporting and the validity of accounting has been threatened. Managers can use their knowledge about business activities to improve the effectiveness of financial statements, as a tool to transfer information to the potential investors and creditors and increase accounting profit transparency. Now there is a question: Can researchers achieve this goal by the help of conservatism which is one of the outstanding features of financial reporting? Thus, the present research is going to try to investigate about the effect of conservatism based on the 2 models: Basu (1997) for conditioned conservatism and Givoly and Hayn (2000) for unconditioned conservatism on accounting profit transparency model of Barth *et al.* (2008). Therefore, the main question of the present research to find an answer is that how conditioned and unconditioned conservatism can affect accounting profit transparency?

Reserch literature: Chan *et al.* (2009) studied the economic results of different aspects of accounting conservatism including pre-incident (balance sheet, unconditioned) conservatism and post-incident (profit and loss, conditioned) conservatism in a research study. These 2 aspects of conservatism transfer different information about the quality of accounting figures to the market and thus, they have different relationships with the return rate needed for the investors (capital cost). They found out that pre-incident conservatism leads to a higher quality of accounting information and thus, capital cost will be lower and post-incident conservatism will accompany a lower quality of accounting information and therefore capital cost will be higher.

Lara *et al.* (2009) studied about the economic determinants of conditioned conservatism in a research. According to the previous studies they found out that contractive identification results in conditioned conservatism and judging about legal claims will result in conditioned and unconditioned conservatism.

They presented some evidences that show debt costs of the company decreases by increasing financial reporting transparency. They found out that improving financial reporting quality perceived by the investors will result in saving in expenses and found that the amount of transparency of financial statements affects pricing debt contracts.

Setayesh and Jamalianpour (2010) studied about the existence of conservatism in financial reporting in a research entitled: Studying the existence of conservatism in financial reporting of firms accepted in Tehran stock exchange. The results of this research showed that in most cases there is not an asymmetry between accounting profit of stocks.

Khanlari (2010) investigated about the effect of conservatism on information content of accounting earnings in financial reporting of firms accepted in Tehran stock exchange during the years between 2001 and 2008 with a sample containing 145 companies. In this research, conservatism was calculated by using Basu (1997) Model and the information content of accounting incomes using Iston and Harris method. The research results showed that there exists a non-linear relationship between information content of accounting incomes and conservatism. It means that information content increases by moving low conservatism portfolio towards average conservatism portfolio and it decreases by moving towards high conservatism portfolio. Also, the results showed a deviation in the relationship between incomes-return when the utilization is more or less than conservatism amount.

Panahiyan comparatively studied the effect of perception of transparency of financial information in determining the behavior of investors in Tehran stock exchange. The results of their research showed that improving financial information transparency in Tehran stock exchange can result in increasing public trust and increasing the activities of investors. Also, the comparison of the results of this study with a similar research carried out in Taiwanese bourse showed that the behavior of investors in Taiwanese bourse has been affected by their perspectives towards the dimensions of transparency of financial information more than the investors in Tehran.

Kordestani studied the effect of accounting profit transparency on ordinary stock capital cost. The results showed that accounting profit transparency results in reducing the expected return by the stockholders (ordinary stock capital cost) through risk reduction and there is a negative and meaningful relationship between these 2 variables.

Noravesh and Hesarzadeh studied the different dimensions of accounting profit transparency and its relationship with firm features in Tehran stock exchange. According to their definition profit transparency criterion is gained from a composition of 4 qualitative characteristics of profit, namely; the quality of accruals, profit conservatism, smoothening and prediction of profit. The findings of their hypotheses testing showed that firms incurring losses have a less profit transparency than other companies. In this area, a meaningful relationship between accounting profit transparency and the fluctuations of operational cash flow of a next period was not approved.

Iatridis (2011) showed that those companies which present high quality accounting revealing have higher

conditioned conservatism and lower unconditioned conservatism. Also, he proved that the conditioned form of conservatism is related negatively with unconditioned form of conservatism.

Kordestani and Khalili (2011) studied the effect of conservatism on differential information content of cash flows and accruals and generally their research results emphasized on the importance of conservatism and its effect on differential information content of accruals compared to cash flows. In other words, the application of conservatism increases information content of the accrual part of the earnings.

Kordestani studied the relationship between accounting profit transparency and cash money during the period between the years 2004 and 2010 in Tehran stock exchange. Their findings showed that there is a negative and meaningful relationship between information transparency and cash holding. In other words, those companies which have higher information transparency hold less cash.

Gu and Hackbarth (2013), studied the interaction between accounting transparency and corporate governance during the years between 1990 and 2006 in their research and claimed that companies which have strong corporate governance always have unusual returns and accompany transparency increases. They found supportive evidences that corporate governance and transparency are complements because the user can achieve efficiency and more exact knowledge.

MATERIALS AND METHODS

This an applied research conducted using multivariable regression method and econometrics models for 6 years from 2006-2011. The research hypothesis was tested based on integrated data and Eviews-6 software was used to analyze the data statistically. Tehran stock exchange listed firms constitute statistical population of the research. Statistical sample of the research was consisted of stock exchange listed firms if:

- They are listed at Tehran stock exchange until 19 March, 2004
- They do not suffer from transactional shutdown for >6 months
- Their required data are available
- Investment firms, insurance companies, banks and financial institutes are excluded from the study considering different nature and classification of financial statements items of investment and intermediation firms in comparison with the manufacturing ones

- There is a positive book value for their equities
- They do not change their financial year during the research
- Their financial year ends up to 19 March

Considering the above limitations, 75 Tehran stock exchange listed firms of 18 industries were selected as the sample.

Research hypothesis

Hypothesis 1: Conditional conservatism affect accounting profit transparency.

Hypothesis 2: Unconditional conservatism affect accounting profit transparency.

Research variables

Dependent variable

Accounting profit transparency: In the present research researchers have used the model posed by Barth *et al.* (2008) to define profit transparency. This transparency model is introduced by concurrent change of profit and profit changes with stock return. The index measuring profit transparency amount is the identification coefficient (R2) which is calculated by the stock return regression against profit and its changes (Cheung *et al.*, 2010). This index is interpreted as profit transparency because profit and the changes in profitability show the changes in economic conditions of a company which has been measured by stock return. To measure transparency, the following model has been estimated:

$$R_{i,t} = \alpha_0 + \alpha_1 EPS_{i,t} / P_{i,t-1} + \alpha_2 \Delta EPS_{i,t} / P_{i,t-1} + \epsilon_{i,t} \quad (1)$$

Where:

- $R_{i,t}$ = Annual stock return of firm i in the year t
- $EPS_{i,t}$ = Profit of each share before unusual goods of the firm i in the year t
- $P_{i,t-1}$ = Stock price at the end of the year t-1
- $\Delta EPS_{i,t}$ = Change in profit of each share before unusual goods of the firm i from the year t-1 to t

After calculating the variables researchers need to calculate 6 periods identification coefficient (R2) from the year 2006-2011. To calculate R2 as an alternative for profit transparency, model 1 has been estimated as rolling windows time range. In this model, the bigger amount of R2 will result in higher descriptive capability of profit in the current period and the changes of profit in current period will result in more stock returns and researchers can say that accounting profit transparency will be enhanced.

Independent variable

Conditional conservatism: Basu (1997) has called using higher degrees of reliability to recognize and record profits and desirable news (value increase) against using lower degrees of reliability to recognize and record losses and undesirable news (value reduction) conservatism (Mehrani and Mohammadabadi, 2009).

In the present research, researchers have used Basu (1997) Model to calculate conditioned conservatism amount for a 5 years period as follows:

$$E_{i,t} = \alpha + \beta_1 DR_{it} + \beta_2 R_{it} + \beta_3 R * DR_{it} + \epsilon_{it} \quad (2)$$

Where:

- E = Net profit divided by market value of stock at the start of fiscal year
- R = Real return during the fiscal year

In the present research, the annual return of the company has been calculated from the start of the trademark to the stop of it and we have used the following equation to calculate annual return:

$$AR = (p_i)(1 + X) - (P_0 + X(V)) / P_0 + X(V) * 100 \quad (3)$$

Where:

- R = Cumulative annual return rate
- X = Percentage of capital increase
- P_i = Price when the trademark is stopping before the assembly
- P_0 = Price when the trademark is starting after the assembly
- V = Price of adoption of each share
- DR = A virtual variable and number 1 is assigned to it when real return is less than market return and if it is not do number 0 will be appropriated to it

Since in most previous researches, it is seen that the negative return in assembly distance has been interpreted, as a sign of negative reaction of the market for conservatism regarding the conditions in Tehran stock exchange the stock return of many of the companies has been negative for several reasons and all these can not be considered as a sign of conservatism. Thus to create a new approach in recognizing conditioned conservatism, the bad news about the company is applied, as the low level of real return of a share of market return. In 2nd stage to recognize conditioned conservatism if the stock has had a negative return in response to the conditions above, no conditioned conservatism is taken into consideration and this presupposition prepares some evidences of bad news about a company.

Using the differential of return of a company and market returns: The idea of using the differential of return of a company and market return and considering it as an unusual return, is considered to be one of methods in determining unusual return. This method has been practically changed into a simpler form by losing α and making $\beta = 1$. By using this model which has been utilized in some researches based on stock return researchers can compare the return difference of market and real return of the company and consider the result as unusual return of the company.

$$AR = \frac{\text{The last price before assembly date} - \text{The first price after assembly date}}{\text{The first price after assembly date}}$$

For example, the last price before 15/6/2011 and the first price after 6/7/2010.

$$MR = \frac{\text{Total index before assembly date after assembly date}}{\text{Total index after assembly date}}$$

For example, total index before 15/6/2011 and total index after 6/7/2010. In Basu's conservatism model it is presupposed that negative news (negative returns) are recognized more rapidly, than positive news (positive returns) in incomes. In Basu's Model, β_3 measures the identification power of negative returns compared to positive returns for the incomes and thus it is utilized, as a criterion for conservatism. The higher amount of conservatism criterion (β_3) will create more return reaction to bad news.

Unconditional conservatism: As Givoly and Hayn (2000) pointed out conservatism is the selection of an accounting approach in lack of assurance condition which finally results in presenting the least asset and income and has the least positive effect on owners equity. Givoly and Hayn relied on a certain definition and utilized non-operational (optional) accruals to measure conservatism. According to the definition, conservatism is applied in recognizing and reporting the financial incidents when management 1st encounters ambiguity and lack of trust and is forced to choose an alternative from among 2 or more alternatives. Also, a method should be chosen and administered that will result in the least amount of accumulated earnings. Givoly and Hayn (2000) used non-operational (optional) accruals because on the one hand, accrual accounting profit is a route to implement conservatism and on the other hand, enforcing the power by the managers creates conservatism preparation in lack of assurance (Mehrani and

Mohammadabadi, 2009). In the present research, researchers have utilized Givoly and Hayn (2000) Model to calculate the amount of unconditioned conservatism amount as follows:

$$Uncon_{i,t} = (OACC_{i,t} + DEP_{i,t} / TA_{i,t-1}) * (-1) \quad (4)$$

Where:

- Uncon_{i,t} = Unconditioned conservatism index of firm i during period t
- DEP_{i,t} = Depreciation of firm i during period t
- OACC_{i,t} = Operational accruals of the company i during period t which is gained from the equation
- TA_{i,t-1} = Total assets of firm i at the end of the period t-1

$$OACC_{i,t} = \Delta(AR_{i,t} + I_{i,t} + PE_{i,t}) - \Delta(AP_{i,t} + TP_{i,t})$$

Where:

- AR = Business accounts and documents receivable
- I = Inventory
- PE = Pre-payments
- AP = Business accounts and documents payable
- TP = Tax Paid

According to this method, the continual existence of negative operational accruals during a long-term time period in companies is considered, as a criterion for conservatism. It means that the more negative and higher amount of negative operational accruals during the period will result in more conservatism. However, net accumulation rate of negative operational accruals shows the change of conservatism degree during pass of time (Banimahd and Baghbani, 2009).

Control variables

Financial leverage of the firm: It is the amount of using debt in capital structure of the company. This variable is measured as follows:

$$LEV_{i,t} = TL_{i,t} / TA_{i,t}$$

Where:

- TL = Total Liabilities
- TA = Total Assets

Firm size: Firm size is calculated by using the logarithm of the number of stocks at the end of financial period.

RESULTS

Descriptive statistics: The summary of the characteristics related with the variables utilized in the present research is shown in Table 1. The statistics reported are average, mean, maximum, minimum and criterion deviation of the variables used in the present research.

Table 1: Descriptive statistics of variables

Variables	Mean	Middle	Maximum	Minimum	SD
Trans	0.6012	0.6525	1.00	0.00	0.2988
Con	1.8174	0.0008	81.06	-54.38	11.9800
Uncon	-0.0878	-0.0766	0.43	-1.66	0.1601
Lev	0.6460	0.6477	1.72	0.29	0.1678
Size	18.2300	18.1200	21.13	15.93	1.0600

Trans = Accounting profit transparency; Con = Conditional conservatism; Uncon = Unconditional conservatism; Lev = Financial leverage of the firm; Size = Firm size

Table 2: Normal test results

Dependent variable	Kolmogorov-Smirnov	p-value
Trans	0.101	0.000

Table 3: Normal test results after normalization of the data

Dependent variable	Kolmogorov-Smirnov	p-value
Trans	0.028	0.200

Testing the normality: The normality of the residuals of the regression model is one of the regression presuppositions which show the validity of regression tests. Researchers will use Kolmogorov-Smirnov test to investigate about the normality of the distribution of the 2 variables because the normality of the dependent variables will lead to the normality of pattern residuals. Thus, the normality of the dependent variable should be controlled before the estimation of the parameters and if this condition is not observed the condition will not be an appropriate resolution for normality of them (such as changing them). Zero hypothesis and the opposing hypothesis in the present test are as follows:

H₀: Data for dependent variable do follow a normal distribution

H₁: Data for dependent variable do not follow a normal distribution

When the amounts for meaningfulness level are <5%, zero hypothesis will be rejected in an assurance level of 95%.

As it can be seen in Table 2, the meaningfulness level of each of the variables is <0.05%. Thus, hypothesis H₁ claiming the lack of normality of data is approved. To normalize the data, researchers have used Johnson's transformation function in MiniTab 16 software.

As it is seen in Table 3, the meaningfulness level of Kolmogorov-Smirnov statistics for both variables is >5% and it shows the normality of the distribution of these variables.

Results: Researchers have used a panel data regression model. Also in order to select the appropriate method of estimation among OLS the pooled model, Fixed Effects (FE), Lagrange Multiplier (LM) and Random Effects (RE) researchers applied the Chow and Hausman tests using

Table 4: Chow, Lagrange multiplier and Hausman tests

Models	Test	Test-statistic	p-value	Results
1	Chow	3.23	0.0000	FE
	LM	3.15	0.0075	RE
	Hausman	47.60	0.0045	FE
2	Chow	4.37	0.0000	FE
	LM	1.98	0.0015	RE
	Hausman	1.94	0.0058	FE

Table 5: Results of 1st research hypothesis estimation

Variables	Coefficient	t-statistic	p-value
Con	0.0026	2.5633	0.0109
Lev	0.1204	2.5633	0.0109
Size	0.0620	1.2369	0.2171
C	-0.6214	-0.6673	0.5051
F	3.1690		
p-value	0.0000		
R ²	0.4595		
Adjusted R ²	0.3145		
Durbin-Watson	1.7690		

Eviews 7, STATA 11 (For more details about panel data technique and the related tests (Baltagi, 2013; Greene, 2012; Hsiao, 2003; Gujarati, 2004). Table 4 presents Chow, Lagrange Multiplier and Hausman tests for the models, respectively concerning developed and developing countries.

Based on the results in Table 4, researchers have used Chow's test to select from among the methods of least integrative squares and fixed effects. If the meaningfulness level is <0.05, H₀ which means the existence of integrative data is rejected and the rejection of H₀ means the existence of fixed effects model. Also, researchers have used Brush Pagan's method to choose from among the methods of least integrative squares and random effects. If the meaningfulness level is <0.05, H₀ which means the existence of integrative data is rejected and the rejection of H₀ means the existence of random effects model. Finally to choose from among the 2 models of fixed effects and random effects, researchers have used Hussmann's test. According to Hussmann's test, H₀ means the existence of random effects model and H₁ means the existence of fixed effects model. Regarding the meaningfulness level if it is <0.05, we can reject H₀ and the final model is the one with fixed effects and if not the final model will be a model with random effects.

Results of testing the hypotheses

Results of testing the 1st research hypothesis: The 1st research hypothesis; conditional conservatism affects accounting profit transparency. To test the 1st research hypothesis, researchers have used panel data in the form of fixed effects in model 6 regarding the results of model selection tests. The model estimation results are represented in Table 5.

$$Trans_{it} = \alpha_0 + \alpha_1 Con_{it} + \alpha_2 Lev_{it} + \alpha_3 Size_{it} + \epsilon_{it} \tag{5}$$

Table 6: Results of 2nd research hypothesis estimation

Variables	Coefficient	t-statistic	p-value
Uncon	-0.0307	-1.2876	0.1987
Lev	0.0596	0.8892	0.3745
Size	0.0332	3.7555	0.0002
C	-0.0456	-0.2340	0.8151
F	9.7050		
p-value	0.0000		
R ²	0.6676		
Adjusted R ²	0.5988		
Durbin-Watson	1.8140		

As it can be seen in Table 5, the coefficient of the variable of conditioned conservatism (0.0026) has a positive relationship and this relationship is meaningful statistically in 5% level. The meaningfulness of Fisher statistics (3.169) shows the meaningfulness of the total model in 5% level. Also, the adjusted identification coefficient shows that the independent variables of the model 6 can describe 31.45% of the changes in the dependent variable.

The meaningfulness of coefficient of the variable of conditioned conservatism (0.0026) shows that the 1st research hypothesis claiming: Conditional conservatism affects accounting profit transparency is approved.

Also, the controlling variable coefficient of financial leverage and firm size is assessed to be positive which is not meaningful statistically. Additionally regarding Durbin-Watson statistics, calculated to be 1.769 shows that there is not 1st order self correlation between the pattern's residual sentences.

Results of testing the 2nd research hypothesis: The 2nd research hypothesis; unconditional conservatism affects accounting profit transparency.

To test the 2nd research hypothesis, researchers have used panel data in the form of fixed effects in model 7 regarding the results of model selection tests. The model estimation results are represented in Table 6.

$$\text{Trans}_{i,t} = \alpha_0 + \alpha_1 \text{Uncon}_{i,t} + \alpha_2 \text{Lev}_{i,t} + \alpha_3 \text{Size}_{i,t} + \varepsilon_{i,t} \quad (6)$$

The results of model 7 estimation with the approach earlier show that the coefficient of the variable of unconditioned conservatism is not meaningful in 5% level. The meaningfulness of Fisher statistics (9.705) shows the meaningfulness of the total model in 5% level. The amount of Durbin-Watson statistics, calculated to be 1.814 shows that there is not 1st order self correlation problem between the pattern's residual sentences. Due to the lack of meaningfulness of the coefficient of the variable of unconditioned conservatism (-0.0307), the 2nd research hypothesis claiming; unconditional conservatism affects accounting profit transparency, is not approved.

The balancing of the regression model results in calculating the positive coefficient (0.0596) for the variable of financial leverage of the company and this coefficient is not statistically in an appropriate level of meaningfulness but the coefficient of firm size (0.0332) is meaningful in the level of 5%.

DISCUSSION

In the present research, researchers studied about the effects of conditioned and unconditioned conservatism on accounting profit transparency. The results of testing, the 1st research hypothesis showed that conditioned conservatism affects accounting profit transparency and this hypothesis was approved and regarding its coefficient, the relationship is direct and we can claim that by increasing conservatism, accounting profit transparency will increase. That is managers will increase their level of accounting profit transparency when they encounter conservatism increases (i.e., bad news being revealed faster than good news). Conditioned conservatism can affect the quality of the reported profits and using this approach in accounting will result in a reduction of the reported profit and increasing accounting profit transparency and since, many of the investors make decisions based on the reported profits this can be useful for the investors.

CONCLUSION

Based on the results of the 2nd research hypothesis, researchers can say that unconditioned conservatism which tries to study the trend of non-operating accruals showed that it does not affect accounting profit transparency.

The results of the hypotheses accorded with those mentioned in Iatridis (2011), Chan *et al.* (2009) and Pae (2007). Also, the test results of the present hypothesis oppose with the findings in Francis *et al.* (2005, 2008).

SUGGESTIONS

The results of the present research can be noticed by the financial managers in trying to increase the transparency of accounting profit. Based on the findings of the present research, it is better for managers to refer to conservative approaches in order to present financial reports. Additionally, they should consider that when managers want to increase the quality of the represented reports through management and cause transparency in financial statements, it is better to increase conditioned conservatism in financial reporting.

Accounting standards committee should consider conditioned conservatism approaches in devising the requirements of knowing and measuring in financial reporting.

Companies can increase the reliance of capital market by revealing transparent information and can have a better financing through it and also achieve better investment opportunities. This can result in increasing transparency throughout the capital market. Increasing capital market transparency will also result in more investments, market efficiency, optimized appropriation of the resources and finally economic growth and flourishing.

Researchers suggest studying the topic posed based on different industries. The relationship between accounting profit transparency and financial reporting quality and information asymmetry should be investigated.

The effect of independent and dependent auditing quality on the quality of financial reporting should be studied.

The effect of conservatism (conditioned and unconditioned) on capital cost of the company should be investigated more because some scholars believe that conservatism reduces total risk of the company by increasing financial information quality and thus, capital cost of the company decreases. On the other hand, some others believe that conservatism reduces the return expected by the stockholders and investors by reducing the expectations of capital market from the future performances of business unit and therefore, they increase capital costs of the company.

In the present research, researchers have used Basu, Givoly and Hayn's Model to calculate conditioned and unconditioned conservatism. Thus, here it is suggested to use other models to calculate conservatism, such as Floss's Model.

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