JURNAL
Riset Akuntansi dan Keuangan Indonesia
URL : http://journals.ums.ac.id/index.php/reaksi/index

Perplexity in Accounting Conservatism: a Critical Review

Fuad Hudaya Fatchan, Ari Kuncara Widagdo
Master of Accounting Student, Economics and Business, Sebelas Maret University

fuadhudaya@yahoo.co.id

Keywords: Accounting, Conservatism

ABSTRACT

This paper aims to provide an overview of the literature regarding the definition of accounting conservatism, review literature evidence on the interpretation and role of accounting conservatism and determine the factors that influence conservatism at the company level and the country level. This study shows that the debate about accounting conservatism is largely driven by confusion about the definition and interpretation of conservatism. It is important for researchers to distinguish between the two types of conservatism and to adopt appropriate measures and theories in future research.

p-ISSN:1411-6510
e-ISSN :2541-6111

INTRODUCTION

Accounting for conservatism is an old and most influential convention in preparing financial reports (Sterling, 1970). Surprisingly, there is still a lot of confusion about conservatism. For example, the Financial Accounting Standards Board (FASB) views accounting conservatism as a counterweight to uncertain business situations (Statement of Concepts No.2, FASB 1980: 10). At the same time, the FASB considers accounting conservatism to be a violation of the neutral framework and suggests removal of the qualitative characteristics of accounting information is desirable.

Accounting concept statement no. 3 The Australian Accounting Standards Board (AASB) also reflects this ambivalence: "*the concept of conservatism, understood to lead to a deliberate bias towards undervalued income or assets and / or the recognition of maximum expenses or liabilities, would be odd if the desired qualitative characteristic, namely reliability". On the other hand, conservatism is sometimes defined in an acceptable way; that is, when it is synonymous with reliability*" (AASB 10 2001). Controversy surrounding conservatism is also found in the academic literature. Accounting conservatism has long been criticized as a mechanism that introduces bias into financial information (eg, Feltham and Ohlson, 1995; Zhang, 2000). However, Other studies view accounting conservatism as an efficient financial reporting mechanism that increases overall firm value and benefits all corporate stakeholders (Holthausen and Watts 2001; Watts 2003a; Ahmed and Duellman 2007).

The objectives of this study are as follows: first, to clarify the definition of accounting conservatism; second, to review literature evidence on the interpretation and role of accounting conservatism; third, to determine the factors that influence conservatism at the company level and the country level.

BACKGROUND

Classification of Conservatism: Conditional and Unconditional

Although it has influenced accounting practice for centuries, there is no definite definition of conservatism. According to the Accounting Principles Board (APB) conservatism is defined as the general tendency to acknowledge early adverse events and minimize the amount of net assets and net income (AICPA 1970: para. 35). The International Accounting Standard Board (IASB) defines the level of prudence in making estimates and assessments required in conditions of uncertainty, so that assets or income are not exaggerated and liabilities or expenses are not minimized (IASB 1989: paragraph 37). Watts and Zimmerman (1986) define conservatism as the lowest reporting value among the possible alternative values for assets and the highest alternative value for liabilities.

Extending this definition, accounting researchers have identified two broad forms of conservatism: conditional conservatism and unconditional conservatism. The main difference between the two forms of conservatism is that the application of conditional conservatism depends on economic news events, whereas the application of unconditional conservatism is not (Ruch, 2015).

Beaver and Ryan (2005) classify accounting conservatism into conditional conservatism and unconditional conservatism and explain the relationships and differences between them. Unconditional conservatism, also called news-independent or ex ante conservatism, means that those aspects of the accounting process that are specified at the outset of assets and liabilities that do not generategoodwill recording. Examples of unconditional conservatism include direct expenditure of the cost of internally generated intangible assets and amortization of long-lived assets at a rate above the expected rate of economic amortization. Conditional conservatism, also called news-dependent or ex post conservatism, means that the book value is recorded in a sufficiently disadvantageous manner but not under a favorable condition. Examples of conditional conservatism include lower cost or market accounting for inventories and impairment accounting for long-lived tangible and intangible assets (Ji, 2013). Both types of conservatism lead to net book values of assets that are understated relative to market value (Kabir and Laswad 2014).

In contrast to unconditional conservatism, conditional conservatism brings new information (Ball et al. 2013a) and depends on the economic environment faced by the company. Typically, conservatism is not conditional on recognizing economic losses in a more timely manner than economic gains. Using a mathematical model, Beaver and Ryan (2005) show that unconditional conservatism is the main source of unrecorded goodwill, which is a form of accounting slack. Another important difference between unconditional and conditional conservatism concerns their impact on contract efficiency. Ball and Shivakumar (2005) show that conditional conservatism can increase the efficiency of contracts and investment through timely loss recognition, thereby limiting the opportunistic actions of managers. However, unconditional conservatism prevents contract efficiency and can even distort the financial reporting used by investors. Qiang (2007) provides empirical evidence that conditional conservatism and unconditional conservatism have a negative relationship with each other and play different roles in the company. Researchers must therefore distinguish between conditional and unconditional conservatism.

Examples of accounting conservatisms.
Types of conservatism and examples:
Conditional conservatism.

- Goodwill impairment
- Long-lived asset impairments
- Inventory recorded at the lower of cost or market
- Asymmetry in gain / loss contingencies

Conservatism is unconditional.

- Accelerated depreciation methods
- Expensing R&D costs
- Expensing advertising costs
- LIFO inventory
- Accumulated reserves in excess of expected future costs (allowance for doubtful accounts, warranty allowance)

Ruch and Taylor (2015) in their research point out the importance of distinguishing between conditional and unconditional conservatism for three reasons. First, these two forms of conservatism have different effects on financial statements. The adoption of accounting policies that are consistent with unconditional conservatism is likely to have a relatively consistent impact on the income statement from period to period (eg research and development costs). In contrast, the application of conditional conservatism is more likely to be temporary in the income statement due to fluctuations in the content and timing of economic news across periods (Chen, Folsom, Paek, & Sami, 2014). On the balance sheet, both types of conservatism result in smaller net assets. However, conditional and unconditional conservatism have different effects at the time of recognition of the income statement, and in turn, different effects at the time of recognition of the balance sheet (ie, impairment of net assets). For example, accelerated depreciation of an asset in the first few years of its useful life can eliminate the need to write down book valueasset in case of bad news about the market value of that asset.

Second, research shows that the application of one type of conservatism influences the application of another. Most notably, Beaver and Ryan (2005) investigated the relationship between conditional and unconditional conservatism, and found that unconditional conservatism creates an "accounting slack" that prevents the adoption of conditional conservatism.

Third, the conditions that give rise to conditional conservatism may be different from unconditional conservatism. For example, Qiang (2007) examined the existence of unconditional and conditional conservatism in each of the four explanations for the conservatism offered by Watts (2003) namely contract, litigation, taxation, regulation and found that conditional conservatism arises in settings where contract costs and litigation is high, whereas unconditional conservatism arises in settings where litigation, regulatory, and tax costs are high.

From another perspective, Lawrence et al (2013) differentiate between discretionary and non-discretionary conservatism. They argue that non-discretionary conservatism results from the application of unbiased accounting principles and defines discretionary conservatism as conservatism arising from deliberate intervention in the financial reporting process to adjust for amounts and timing. Roychowdhury and Martin (2013) agree with this classification but take an alternative viewpoint on discretion in conservatism.

WHY WAS CONSERVATISM ADOPTED?

It is widely accepted in the literature that accounting conservatism arises from problems of contracts, litigation, regulation and taxation (Watts 2003a; LaFond and Watts 2008). However, there is

p-ISSN:1411-6510
e-ISSN:2541-6111

debate about certain types of conservatism. Watts (2003) argues that conditional and unconditional conservatism is driven by general factors. Ball and Shivakumar (2005) argue that unconditional conservatism should not be linked to a contract because it does not use new information. The bias that occurs due to unconditional accounting conservatism reduces the efficiency of the contract. Their argument is supported by historical evidence that most forms of unconditional conservatism arise with tax requirements and regulatory effects. In contrast, conditional conservatism has a longer history since the 1673 French Commercial Code,

Empirical research provides mixed evidence. Several studies have found an association between contract factors and unconditional conservatism (Ahmed et al. 2002; Beatty et al. 2008). However, a detailed examination revealed that this mixed evidence was due to confusion between the two types of conservatism. The steps they took were more towards conservatism as a whole than conservatism without conditions. Therefore, their evidence cannot be used to explain different types of conservatism.

Separating the act of conservatism into conditional and unconditional conservatism, Qiang (2007) found that the two types of conservatism play the same role in litigation as well as different roles. Conditional conservatism is driven largely by litigation costs and tax factors, while conditional conservatism is driven largely by contractual factors. Bushman and Piotroski (2006) provide evidence consistent with examining conditional conservatism at the country level. The authors find that conditional conservatism varies with legal and political institutions but is not related to the tax burden.

Requests From Debt Holders

The asymmetric risks and rewards of holding debt in debt contracts lead to a demand for conditional conservative accounting. Debt holders do not receive additional benefits from the increase in net asset value, whereas they bear losses if the value decreases. By recognizing losses in a timely manner, conditional conservatism transfers decision making from shareholders to prior bondholders, thereby protecting debt holder claims and reducing agency conflicts between shareholders and debt holders (Watts 2003a; Ball and Shivalumar 2005).

Empirical research supports this interpretation. Nikolaev (2010) found that companies that rely more on public debt covenants report higher conditional conservatism. Chen et al. (2010) show that higher conditional conservatism is reported when debt holders are more concerned with firm risk. Tan (2013) found that firms report higher conditional conservatism immediately after covenant violations, especially when creditors have stronger bargaining power.

Jayaraman and Shivakumar (2013) documented evidence that companies with higher pressure on debt-based contracts reported higher conditional conservatism following the passage of the anti-take over law, which supports that higher agency conflict between debt holders and shareholders results in higher higher demand for conditional conservatism.

Requests From Capital Investors

Another source of conditional conservatism comes from the demands of capital investors to mitigate the opportunistic behavior of managers (Watts 2003a; Gao 2013). Managers have an incentive to disclose their personal information about gains while withholding information about losses. Capital investors are aware of managers' incentives and thus require timely recognition of bad news to limit overpayments to managers and resolve agency conflicts between managers and shareholders.

Consistent with this interpretation, empirical evidence suggests that firms with higher conflict between managers and shareholders adopt more conditional conservative accounting (Lafond and Roychowdhury, 2008). In addition, directors and institutional shareholders also play an important role in demanding conditional conservatism (Beekes et al. 2004; Ahmed and Duellman 2007; Ramalingegowda and Yu 2012). Lafond and Watts (2008) found that firms with higher information asymmetry between managers and outside capital investors reported higher conditional conservatism.

Auditor's Request For Conservatism

Auditors demand conservatism because they suffer from information asymmetry and asymmetric rewards. The auditor is responsible for the reliability and correctness of financial reporting. When companies experience financial fraud, auditors face reputational loss and risk of prosecution by shareholders. Palmrose and Scholz (2000) found that auditors are more likely to be sued when financial statements are restated. For example, Arthur Andersen faced litigation and went bankrupt after the Enron scandal. The time-series variations in conservatism are consistent with this explanation. Basu (1997) documented that conservatism increased during periods of increased litigation against auditors, and Holthausen and Watts (2001) confirm this finding. Big Eight auditors report more conservative financial reporting than non-Big Eight auditors (Basu et al. 2001).

Requests From Other Contracting Parties

Apart from debt holders and equity investors, suppliers and customers also demand conservatism to protect themselves when contracting with companies. Hui et al. (2012) show that companies whose suppliers and customers have stronger negotiating power report more conservative accounting information. This association will be more prominent when the company is very dependent on suppliers.

The Regulator's Request For Conservatism

When companies face bankruptcy, regulators tend to be criticized by the media and investors and even get involved in legal proceedings. As in the case of Enron,The Securities Exchange Commission (SEC) was heavily criticized by investors, and had to pass the Sarbanes-Oxley Act to protect investors' wealth. One of the outcomes of the 2007-2008 securities market crisis was a strong criticism of the Generally Accepted Accounting Principles (GAAP), which were produced by the FASB (Pinnuck, 2012).

Researchers and standard setters argue that conservatism leads to biased financial reporting and is not suitable for equity valuation (Lambert 2010). Consequently, they argue that conservatism should be removed from GAAP. According to the IASB (2008), conservatism will cause bias in reported financial position and financial performance, and this framework does not include caution or conservatism as the desired quality of financial reporting information.

FASB (2010) in the conceptual framework statement of financial accounting concepts no. 8 offers the following statement:

> "Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral, and free from error. Second, substance over form, prudence (conservatism), and verifiability, which are aspects of reliability in Concepts Statement 2 or the Framework (1989), are not considered aspects of faithful representation. Substance over form and prudence were removed. Chapter 3 does not include prudence or conservatism as an aspect of faithful representation because including either would be inconsistent with neutrality. Some respondents to the Discussion Paper and Exposure Draft are disagreed with that view. They said that the framework should include conservatism, prudence, or both. They said that bias should not always be assumed to be undesirable, especially in circumstances when bias, in their view, produces information that is more relevant to some users."

Kothari et al. (2010) argue that verifiability and conservatism are important features of GAAP that are shaped by market forces. Empirical evidence shows that conservatism is useful and indispensable for financial reporting (Ball et al, 2000; Watts, 2003; Zhang, 2008; Ahmed and Duellman, 2011; Kabir and Laswad, 2014); Moreover, empirical evidence suggests that accounting conservatism has increased at least until 2002 (Ball and Shivakumar 2006), which is inconsistent with the advocacy of regulators for the elimination of conservatism.

The Manager's Role in Accounting Conservatism

Managers play a special role in implementing conservatism. Accounting principles usually give managers flexibility. For example, accounting principles provide managers with several depreciation methods. On the one hand, managers can use their authority to produce high-quality accounting reports that accurately reflect the

p-ISSN:1411-6510
e-ISSN:2541-6111

economic state of the company. Conversely, managers can take advantage of their authority to report accounting numbers that align with their own incentives and reduce firm value, which is referred to as managerial opportunism. For conservative accounting principles, managers also have great discretion. The manager determines the amount of future cash flows generated by the project and the time to record assets (Zhong, 2016).

Ahmed and Duellman (2013) found that managers who are overconfident tend to enter losses in a less timely manner and tend to show less conservatism than other managers. These findings indicate that managerial characteristics affect the level of conservatism in financial reporting. Certain mechanisms require managers to implement conservatism even though conservatism tends to reduce their compensation and limit their opportunistic behavior (Zhong, 2016). In particular, corporate governance mechanisms limit the discretionary behavior of managers.

Debt holders and shareholders can predict the opportunistic behavior of managers and demand conservatism to protect their wealth. If the company does not apply conservatism, both debt holders and shareholders will require a high cost of capital (Zhang 2008; Kim et al. 2013). Auditors also have an incentive to require managers to implement conservatism, namely litigation and reputation risk. In addition, litigation against managers forces managers to adopt conservatism. Chung and Wynn (2008) found that the scope of managerial legal responsibility, which reduces managers' risk of litigation, is negatively associated with accounting conservatism.

The outside managerial labor market helps monitor the opportunistic behavior of managers. Fama (1980) argues that in the case of the capital market analogy, the managerial labor market is an efficient market that both values the reputation and performance of managers. If a manager does a good job and creates wealth for shareholders, the managerial labor market will reward the manager through high valuation. However, if managers ignore, pursue their own interests and run the company poorly, the manager's value will decline. In addition, lower-level managers will detect and report managerial negligence, which is called "internal monitoring". All of these mechanisms can limit the opportunistic behavior of managers and require that managers adopt and maintain conservatism.

CONSERVATISM AT THE COMPANY AND COUNTRY LEVEL

Research on the Effects of Conservatism at the Firm Level

Most of the previous research on conservatism has investigated its effects at the firm level and generally found that conditional conservatism makes firms less risky and more efficient. Using a sample of companies registered in the US, Biddle et al (2016) found that a higher level of conditional conservatism is associated with a lower risk of subsequent bankruptcy. They found that conservatism led to an association with increasing cash holdings and limiting earnings management.

Gao (2013) uses an analytical approach to show that "conservatism is optimal as long as managers have the incentive and ability to develop accounting reports." In Gao's (2013) model, conservatism creates value by reducing earnings management and increasing contract efficiency. Carrizosa and Ryan (2013) examined the interaction between conditional conservatism and debt covenants and found that both increase the rate of return ratio. Similarly, Donovan, Frankel, and Martin (2015) also found that lenders have higher return ratios for borrowers with higher levels of conservatism, indicating that these companies enjoy lower cost of debt.

Mitra, Jaggi, and Hossain (2013) show that in the years following the Sarbanes Oxley Act (SOX), companies with internal control weaknesses increased their level of accounting conservatism to reduce reporting uncertainty. They concluded that conservatism reduces weaknesses in governance. García Lara, García Osma, and Penalva (2016) find evidence that accounting conservatism increases the investment efficiency of firms by allowing easier access to capital and limiting excess investment.

On the equity side, Kim and Zhang (2016) found that companies with a higher level of conservatism have a lower risk of stock price crashes because conservatism limits managers' ability to make risky decisions. One event where research has shown conservatism to be very useful is the financial crisis. Francis, Hasan, and Wu (2013) examined firm value during the 2007-2008 financial crisis and found that companies with higher conservatism had higher equity values. Likewise, Balakrishnan, Watts, and Zuo (2016) found that companies with lower conservatism experienced a more sharp decline in corporate investment during the 2007-2008 financial crisis.

Several of the studies discussed above simultaneously investigated the effects of conditional and unconditional conservatism. Carrizosa and Ryan (2013), investigating the relationship between conservatism and debt covenants, state that the results are stronger for conditional conservatism than for unconditional conservatism. They explain that the interaction between debt covenants and unconditional conservatism is relatively weak, because debt covenants can be adjusted with unconditional conservatism. García Lara et al. (2016), in their study of conservatism and investment efficiency, include two alternative measures that capture conditional and unconditional conservatism, but they cannot replicate all the results obtained by their measure of conditional conservatism.

Otherwise, Biddle et al (2016) and Francis et al (2013) found significant results for conditional and unconditional conservatism. Both studies show that conservatism unconditionally creates value through its role as a "safety net". This view was expressed by Lins, Servaes, and Tufano (2010) who argued that unconditional conservatism is a mechanism to maintain company liquidity at all times.

Lev and Zarowin (1999) found that firms with higher R&D (sometimes used as a proxy for unconditional conservatism) have lower value relevance. In contrast, Balachandran and Mohanram (2011) used a more comprehensive measure of unconditional conservatism and found no loss in value relevance between firms with higher unconditional conservatism.

Research on the Effects of Conservatism at the Country Level

While there are many studies at the company level on accounting conservatism, few have examined conservatism at the country level. In addition, most country-level conservatism studies have focused on the determinants of conservatism. Ball et al. (2008) find that country-level conservatism is mainly driven by the size of the sovereign debt market, and the size of the equity market has a relatively small impact.

Salter et al (2013) examined several cultural and legal dimensions and found that accounting conservatism was higher in countries with more conservative social norms. Salter et al (2013), however, did not find a relationship between uncertainty avoidance and accounting conservatism, a surprising result given the theoretical role of conservatism in reducing information asymmetry. In contrast, Kanagaretnam et al (2014) show that accounting conservatism is positively associated with uncertainty avoidance and negatively related to individualism, even though the results were obtained for a limited sample of financial firms.

Studies (Barth, Landsman, & Lang, 2008; Hung & Subramanyam, 2007) also show that conditional conservatism increases after firms adopt international accounting standards. These studies show that accounting conservatism is at least partially shaped by national-level institutional factors and not fully determined at the firm level. Several articles explored the effects of conservatism. Bushman et al (2011) found that corporate capital allocation decisions are influenced by the timely recognition of economic losses in various countries.

Two studies by Nallareddy and Ogneva (2016) and Crawley (2015) investigated the macro impact of conservatism levels in the United States. Nallareddy and Ogneva (2016) found aggregate accounting factors (including conservatism) to be useful in predicting revisions to macroeconomic indicators. Crawley (2015) finds that aggregate profit and estimated gross domestic product are relatively more sensitive to bad news than good news and that accounting conservatism has a significant impact on monetary policy.

Among other cross-country studies, Li and Shroff (2010) find that industries with high information uncertainty have higher growth rates in countries with superior financial reporting quality (one-dimensional conservatism). Finally, Li (2015) finds that conditional conservatism measured at the country level is negatively related to the cost of the level of debt and firm equity capital.

CONSERVATISM: GOOD OR BAD?

Standard setters still diverge about the role of accounting conservatism. On the one hand,

p-ISSN:1411-6510
e-ISSN :2541-6111

they view conservatism as a counterweight to an uncertain business situation. On the other hand, conservatism has been criticized as a violation of neutrality and comparability (see FASB 1980; IASB 1989, 2008). The divided opinion about conservatism among standard setters stems from a confusion between the two types of conservatism. Standard setters seem to believe in this form of conservatism unconditionally. For example, the FASB quotes Accounting Principles Board (APB) 4's statement: "*Historically, managers, investors and accountants have generally preferred that possible errors in measurement lead to degrading statements rather than exaggeration of net income and net assets. This has led to the principle of conservatism.*" (Para. 171). However, standard setters also cite several types of conditional conservatism. For example, the FASB states that "*conservatism in financial reporting should no longer connote deliberately undermining net assets and profits*" (FASB 1980: Para. 93). This study argues that unconditional conservatism and conditional conservatism have different mechanisms and may have different roles. It is important to discuss the two types of conservatism separately. This study argues that unconditional conservatism and conditional conservatism have different mechanisms and may have different roles. It is important to discuss the two types of conservatism separately. This study argues that unconditional conservatism and conditional conservatism have different mechanisms and may have different roles. It is important to discuss the two types of conservatism separately.

CONCLUSION

The existence of the two types of conservatism has caused considerable confusion in defining and measuring conservatism, which in turn has led to mixed interpretations of conservatism. This study shows that the debate about accounting conservatism is largely driven by confusion about the definition and interpretation of conservatism. It is important for researchers to distinguish between the two types of conservatism and to adopt appropriate measures and theories in future research. Conditional conservatism has attracted strong interest since the research conducted by Basu (1997). Previous studies have primarily focused on explaining the efficiency of contracts for conditional conservatism but ignored the possibility that asymmetrical recognition of losses and revenues can lead to certain costs.

REFERENCE

Accounting Principles Board (APB). (1970). Statement 4. The Basic Concepts of Accounting Principles Underlying Financial Statements of Business Enterprises. New York: APB.

Ahmed, A.S. and Duellman, S. (2007). 'AccountingConservatism and Board of Director Characteristics: An Empirical Analysis', Journal of Accounting and Economics, 43 (2–3): 411–37.

Ahmed, A.S. and Duellman, S. (2013). 'Managerial Overconfidence and Accounting Conservatism', Journal of Accounting Research, 51 (1): 1–30.

Ahmed, A.S. and Duellman, S., (2011). Evidence on the role of accounting conservatism in monitoring managers' investment decisions. Accounting and Finance, 51 (3), 609–633.

Ahmed, A.S., Billings, B.K., Morton, R.M., and Stanford-Harris, M., (2002). The role of accounting conservatism in mitigating bondholder-shareholder conflicts over dividend policy and in reducing debt costs. The Accounting Review, 77 (4), 867–890.

American Institute of Certified Public Accountants (AICPA) 1970, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises. Statement of the Accounting Principles Board No. 4, AICPA, New York, NY.

Australian Accounting Standards Board (AASB) 2001, Statement of Accounting Concepts 3, Qualitative Characteristics of Financial Information, AASB, Melbourne.

Balakrishnan, K., Watts, R., & Zuo, L. (2016). The effect of accounting conservatism on corporate investment during the global financial crisis. Journal of Business Finance & Accounting, 43(5-6), 513-542.

Ball, R. and Shivakumar, L. (2005). Earnings Quality in UK Private Firms: Comparative Loss Recognition Timeliness, Journal of Accounting and Economics, 39 (1): 83–128.

Ball, R. and Shivakumar, L. (2006). 'The Role of Accruals in Asymmetrically Timely Gain and Loss Recognition', Journal of Accounting Research, 44 (2): 207–42.

Ball, R., Kothari, S. and Nikolaev, V.V. 2013a, Econometrics of the Basu Asymmetric Timeliness Coefficient and Accounting Conservatism, Journal of Accounting Research, 51 (5): 1071–97.

Ball, R., Kothari, S.P. and Robin, A. 2000a, 'The Effect of International Institutional Factors on Properties of Accounting Earnings', Journal of Accounting and Economics, 29 (1): 1–51.

Ball, R., Robin, A., & Sadka, G. (2008). Is financial reporting shaped by equity markets or by debt markets? An international study of timeliness and conservatism. Review of accounting studies, 13(2-3), 168-205.

Barth, M.E., Landsman, W.R. and Lang, M.H. (2008). 'International Accounting Standards and Accounting Quality', Journal of Accounting Research, 46 (3): 467–98.

Basu, S. (1997). 'The Conservatism Principle and the Asymmetric Timeliness of Earnings', Journal of Accounting and Economics, 24 (1): 3–37.

Basu, S., (2005). Discussion of conditional and unconditional conservatism: concepts and modelling. Review of Accounting Studies, 10 (2/3), 311–321.

Basu, S., Hwang, L.-S. and Jan, C.-L. (2001), 'Differences in Conservatism between Big Eight and Non-Big Eight Auditors', Available at: SSRN: http://ssrn.com/abstract=2428836.

Beatty, A., Weber, J., and Yu, J.J., (2008). Conservatism and debt. Journal of Accounting and Economics, 45 (2–3), 154–174.

Beaver, W.H. and Ryan, S.G., (2005). Conditional and unconditional conservatism: concepts and modelling. Review of Accounting Studies, 10 (2/3), 269–309.

Beekes,W., Pope, P., and Young, S., (2004). The link between earnings timeliness, earnings conservatism and board composition. Evidence from the UK. Corporate Governance: An International Review, 12 (1), 47–51.

Biddle, G.C., Ma, M.S., and Song, F.M., (2014). Accounting conservatism and bankruptcy risk. Working

p-ISSN:1411-6510
e-ISSN :2541-6111

Paper, University of Hong Kong.

Bushman, R., Piotroski, J., & Smith, A. J. (2011). Capital allocation and timely accounting recognition of economic losses. Journal of Business Finance & Accounting, 38, 1–33. https://doi.org/10.1111/j.1468-5957.2010.02231.x

Bushman, R.M. and Piotroski, J.D. (2006), 'Financial Reporting Incentives for Conservative Accounting: The Influence of Legal and Political Institutions', Journal of Accounting and Economics, 42 (1–2): 107–48.

Carrizosa, R., & Ryan, S. G. (2013). Conservatism, covenants, and recovery rates. Available at SSRN 2197513.

Chen, H., Chen, J.Z., Lobo, G.J. and Wang, Y. (2010), 'Association between Borrower and Lender State Ownership and Accounting Conservatism', Journal of Accounting Research, 48 (5): 973–1014.

Chen, L. H., Folsom, D., Paek, W., & Sami, H. (2014). Accounting conservatism, earnings persistence, and pricing multiples on earnings. Accounting Horizons, 28(2), 233–260.

Chung, H.H. and Wynn, J.P. (2008), 'Managerial Legal Liability Coverage and Earnings Conservatism', Journal of Accounting and Economics, 46 (1): 135–53.

Crawley, M. (2015). Macroeconomic consequences of accounting: The effect of accounting conservatism on macroeconomic indicators and the money supply. Accounting Review, 90(3), 987–1011. https://doi.org/10.2308/accr-50998

Donovan, J., Frankel, R. M., & Martin, X. (2015). Accounting conservatism and creditor recovery rate. The Accounting Review, 90(6), 2267-2303.

Fama, E.F. (1980), 'Agency Problems and the Theory of the Firm', Journal of Political Economy, 88 (2): 288–307.

Feltham, G.A. and Ohlson, J.A. (1995), 'Valuation and Clean Surplus Accounting for Operating and Financial Activities', Contemporary Accounting Research, 11 (2): 689–731.

Financial Accounting Standards Board (FASB) (1980), Concepts Statement No. 2: Qualitative Characteristics of Accounting Information, FASB, Norwalk, CT.

Financial Accounting Standards Board (FASB). (2010), 'Conceptual Framework for Financial Reporting: Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Reporting Information', Statement of Financial Accounting ConceptsNo. 8, FASB, Norwalk, CT.

Francis, B., Hasan, I., & Wu, Q. (2013). The benefits of conservative accounting to shareholders: Evidence from the financial crisis. Accounting Horizons, 27(2), 319-346.

Gao, P., 2013. A measurement approach to conservatism and earnings management. Journal of Accounting and Economics, 55 (2/3), 251–268.

Holthausen, R.W. and Watts, R.L. (2001), 'The Relevance of the Value-relevance Literature for Financial Accounting Standard Setting', Journal of Accounting and Economics, 31 (1–3): 3–75.

Hui, K.W., Klasa, S. and Yeung, P.E. 2012, 'Corporate Suppliers and Customers and Accounting Conservatism', Journal of Accounting and Economics, 53 (1–2): 115–35.

Hung, M., & Subramanyam, K. R. (2007). Financial statement effects of adopting international accounting standards: the case of Germany. Review of accounting studies, 12(4), 623-657.

International Accounting Standards Board (IASB) 1989, Framework for the Preparation and Presentation of Financial Statements, International Accounting Standards Committee Foundation, London.

International Accounting Standards Board (IASB) 2008, 'An Improved Conceptual Framework for Financial Reporting: Chapter 1, The Objective of Financial Reporting, and Chapter 3, Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information', Exposure Draft May 2008, IASB, London.

Jayaraman, S. and Shivakumar, L., (2013). Agency-based demand for conservatism: evidence from state adoption of antitakeover laws. Review of Accounting Studies, 18 (1), 95–134.

Ji, K. 2013, Better Late Than Never, the Timing of Goodwill Impairment Testing in Australia, Australian Accounting Review, 23 (4): 369–79.

Kabir, M.H. and Laswad, F. (2014), 'The Behaviour of Earnings, Accruals and Impairment Losses of Failed New Zealand Finance Companies', Australian Accounting Review, 24 (3): 262–75.

Kanagaretnam, K., Chee Yeow, L. and Lobo, G.J. 2014, 'Influence of National Culture on Accounting Conservatism and Risk-taking in the Banking Industry', The Accounting Review, 89 (3): 1115–49.

Kim, J. B., & Zhang, L. (2016). Accounting conservatism and stock price crash risk: Firm-level evidence. Contemporary Accounting Research, 33(1), 412-441.

Kim,Y., Li, S.,Pan,C. And Zuo, L. (2013), 'TheRole ofAccounting Conservatism in the Equity Market: Evidence from Seasoned Equity Offerings', The Accounting Review, 88 (4): 1327–56.

Kothari, S.P., Ramanna, K. and Skinner, D.J. (2010), 'Implications for GAAP from an Analysis of Positive Research in Accounting', Journal of Accounting and Economics, 50 (2–3): 246–86.

Lafond, R. and Roychowdhury, S. (2008), 'Managerial Ownership and Accounting Conservatism', Journal of Accounting Research, 46 (1): 101–35.

LaFond, R. and Watts, R.L., 2008. The information role of conservatism. The Accounting Review, 83 (2), 443–478.

Lambert, R. (2010), 'Discussion of "Implications for GAAP from an Analysis of Positive Research in Accounting"', Journal of Accounting and Economics, 50 (2–3): 287–95.

Lara, J. M. G., Osma, B. G., & Penalva, F. (2016). Accounting conservatism and firm investment efficiency. Journal of Accounting and Economics, 61(1), 221-238.

Lawrence, A., Sloan, R., and Sun, Y., (2013). Non-discretionary conservatism: evidence and implications. Journal of Accounting and Economics, 56 (2/3 suppl. 1), 112–133.

Lev, B., & Zarowin, P. (1999). The market valuation of R&D expenditures. Available at SSRN 142122.

Li, F., & Shroff, N. (2010). Financial reporting quality and economic growth. Working paper, University of Michigan.

Li, X. (2015). Accounting conservatism and the cost of capital: An international analysis. Journal of Business Finance & Accounting, 42(5–6), 555–582. https://doi.org/10.1111/jbfa.12121

Lins, K. V., Servaes, H., & Tufano, P. (2010). What drives corporate liquidity? An international survey of cash holdings and lines of credit. Journal of financial economics, 98(1), 160-176.

Mitra, S., Jaggi, B., & Hossain, M. (2013). Internal control weaknesses and accounting conservatism: evidence from the post–Sarbanes–Oxley period. Journal of Accounting, Auditing & Finance, 28(2), 152-191.

Nallareddy, S., & Ogneva, M. (2016). Predicting restatements in macroeconomic indicators using accounting information. The Accounting Review, 92(2), 151–182.

Nikolaev, V.V. (2010), 'Debt Covenants and Accounting Conservatism', Journal of Accounting Research, 48 (1): 51–89.

Palmrose, Z.-V. and Scholz, S. (2000), 'Restated Financial Statements and Auditor Litigation', Working Paper. Available at: http : //dx.doi.org/10.2139/ssrn.248455, accessed 10 April 2013.

Pinnuck, M. (2012), 'A Review of the Role of Financial Reporting in the Global Financial Crisis', Australian Accounting Review, 22 (1): 1–14.

Qiang, X. (2007), 'The Effects of Contracting, Litigation, Regulation, and Tax Costs on Conditional and Unconditional Conservatism: Cross-sectional Evidence at the Firm Level', The Accounting Review, 82 (3): 759–96.

Ramalingegowda, S. and Yong, Y., (2012). Institutional ownership and conservatism. Journal of Accounting and Economics, 53 (1/2), 98–114.

Roychowdhury, S. and Martin, X., (2013). Understanding discretion in conservatism: an alternative view point. Journal of Accounting and Economics, 56 (2/3, suppl. 1), 134–146.

p-ISSN:1411-6510
e-ISSN :2541-6111

Ruch, G. W., & Taylor, G. (2015). Accounting conservatism: A review of the literature. Journal of Accounting Literature, 34, 17-38.

Salter, S. B., Kang, T., Gotti, G., & Doupnik, T. S. (2013). The role of social values, accounting values and institutions in determining accounting conservatism. Management International Review, 53(4), 607-632.

Sterling, R.R. (1970), Theory of the Measurement of Enterprise Income, University Press of Kansas, Lawrence.

Tan, L. (2013), 'Creditor Control Rights, State of Nature Verification, and Financial Reporting Conservatism', Journal of Accounting and Economics, 55 (1): 1–22.

Watts, R.L. (2003a), 'Conservatism in Accounting Part I: Explanations and Implications', Accounting Horizons, 17 (3): 207–21.

Watts, R.L. and Zimmerman, J.L. (1986), Positive Accounting Theory, Prentice-Hall, Toronto.

Zhang, J. 2008, 'The Contracting Benefits of Accounting Conservatism to Lenders and Borrowers', Journal of Accounting and Economics, 45 (1): 27–54.

Zhang, X.J. (2000), 'Conservative Accounting and Equity Valuation', Journal of Accounting and Economics, 29 (1): 125–49.

Zhong, Y., & Li, W. (2017). Accounting conservatism: A literature review. Australian Accounting Review, 27(2), 195-213.