

THE RELATIONSHIP BETWEEN TRUST MANAGEMENT AND CONSERVATION ACCOUNTING

Sakineh Askari^{1,2} and *Mansur Garkaz^{1,2}

¹*Department of Accounting, Golestan Science and Research Branch,
Islamic Azad University, Gorgan, Iran*

²*Department of Accounting, Gorgan Branch, Islamic Azad University, Gorgan, Iran*

**Author of Correspondence*

ABSTRACT

One of the effects of trust management was to overestimate the future investment return, which can increase the risk of investing in the company's concern for capitalists' owners. Hence, the aim of the present study was to investigate the relationship between the trust management and the conservative accounting, as well as foreign observers. In order to achieve the objectives, the financial statements of 94 companies was used that listed in Tehran Stock Exchange for the period of 2008 to 2012. Data was analyzed using multivariate linear regression. The results indicated that there was a positive relationship between the trust management and the conservatism. Also, this study showed that the external supervision (the independent auditor) were affected the more reliable communication between management and conservatism and reduced the amount of communication. The results of this study can be suggested to the stock brokers.

Keywords: *Conservative, Auditing, Trust, Management*

INTRODUCTION

In recent decades, the Enron and WorldCom corporate accounting fraud and the study earnings management have been the focus of many researchers and due to the quality of reported earnings, earnings management studies became important (Lonkani, 2005). Earnings management can be classified in three groups including the white management, the black management and the achromatic management. The white management made a profit reports to improve transparency. Regarding to the researchers' definition, this type of earnings management was about the flexibility in choosing the method of accounting for the transfer of confidential information management and the future cash flows. The black profit management was including fraud and misrepresentation of financial reporting and disclosures. Regarding to the researchers' definition the earnings management, fraud or willful misrepresentation was to reduce the transparency of financial reporting. The achromatic profit management meant the manipulating financial reports in the range of clear standards including the opportunistic earnings management and effective management. Regarding to researchers' definition, the earnings management meant the choice of accounting methods that can be opportunistic (to maximize the utility of the manager) or economically effective (Givoly, 2007). The manager has powers and authority that can be done in such a way that shaped the output pattern of investment decision to his desire. Therefore, management should strive to be one of the most important input pattern investment decisions, which would affect the profits and manage it. Manager of business units can use their powers in two ways to manage an investment decision model inputs for capitalists. In the first case, the manager can use his powers to transfer confidential information about the company's future profitability; this was based on the definitions provided, in accordance with the effective management of earnings, in this type of earnings management, the profits information improved in the confidential information. In the second case, the manager can use the authorities to maximize their utility and to do this distorted the profits. This was based on the definitions provided, in accordance with profit opportunistic management, by examining the ability of discretionary accruals for the future profitability of the company, the type of earnings management in companies can be identified. If the earnings management was effective, there would be a significant positive relationship between the discretionary accruals, which was a measure of earnings management

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and the future profitability, if it was the opportunistic, this relation would be significant and negative (Penman, 2002). The conservatism in accounting was a historical concept. Bliss (1924) believed that, this concept has been expressed in terms of these words in the very distant past. Anticipated the losses but not the profits, this phrase meant the origin of these earnings should be recorded as revenue recognition and offices till the claim has not been proven to their collection. Thus, it was concluded that the conservative did not emphasis on the recognition of incomes upon receipt of cash, but it was enough when the income was provable. Basu (1997) based on the empirical researches indicated that the accountants tended to the recognition of gains and losses. The good news (profit) was higher than the bad news (loss), and accordingly, the conservative was considered as the creature of asymmetry in terms of profit and loss confirmation. Ross and Watts (2002) were defined the conservatism as the demonstrable difference of identification of interest against losses. In this speech, the degree of demonstrable benefit was against the losses. The differences in the degree of demonstrable benefit led to the asymmetry in the recognition of gains and losses. The asymmetry in the recognition of profits or losses or the conservative practices led to the actual amount of assets and was reported net of less valued over actual incomes. Thus, the net assets reported in the current period would be much less than the later amount. Conservative opponents argued that this was the inconsistent with the concept of conservatism, despite the criticism of the conservative, the influence of conservatism in accounting and valuation over time was important. Sterling (1970) introduced the conservative as the most influential valuation principle. Therefore, it can be acknowledged that conservatism had a long history and was important in terms of valuation in accounting. Ross and Watts (2002) demonstrated that in addition to a long history of conservatism in accounting, its employing also increased in the recent thirty years. Given the critical position (the drafters of regulations and standards, and academics) the analysis of Ross and Watts were important. The long life and increased conservatism in accounting in recent years strongly reinforced this idea. Researchers proposed the justifications for conservatism: 1) contract disputes, 2) Income tax regulations, 3) Legal disputes, 4) Regulations. They believed that the use of conservatism in accounting would be useful to the users of financial reports (Bani-mahd, 2009). This study aimed to answer the question; whether there was a relation between the more conservative management and accounting of the trust management.

MATERIALS AND METHODS

Methodology

The research was descriptive-correlation. The population was all productive companies listed in Tehran Stock Exchange that the financial statements of 94 companies was used that listed in Tehran Stock Exchange for the period of 2008 to 2012. Independent variables and dependent variable were trust management and conservatism in accounting and how to evaluate and measure the variables can be expressed as follows:

$$\text{Con}_t = \beta_0 + \beta_1 \text{Overcon}_{t-1} + \beta_2 \text{Strong monitoring}_{t+} + \beta_3 \text{Strong monitoring}_t * \text{Overcon}_{t-1} + \beta_4 \text{Own}_{t+} + \beta_5 \beta_6 \text{MTB}_{t+} + \beta_7 \text{Firm Size}_{t+} + \beta_8 \text{Sales Growth}_t + \beta_9 \text{Cfo}_{t+} + \beta_{10} \text{Q Revenue}_{t+} + \varepsilon$$

In this study, the model of Givoly and Hayn (2000) was used to measure accounting conservatism index. Conservatism index was calculated based on the following:

$$\text{CSCORE}_{it} = \text{AFCC}/\text{TA} \times (-1)$$

In which, CSCORE was conservatism degree, AFC as Operating commitment items (minus of net income and operating cash flow plus depreciation cost), TA = total assets of the first of period

According to Givoly and Hayn (2000) belief, commitment items growth may be an indicator of changes in the degree of accounting conservatism during long period. In other words, an increase in these items leads to decrease in conservatism and vice versa. Thus, for determining the direction of conservatism changes of commitment items conservatism is multiplied in negative number of (-1).

To measure the trust management, Schrand and Zachman model (2011) was used (Quoted by Safi-khani, 2012). They used change percentage in asset and growth percentage of company sale to measure trust

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management. They demonstrated that if the growth rate of assets was greater than the rate of growth in sales, more trust management consider as one and otherwise zero. The external supervision measure as below: the firms that act as by large audit firms (National Audit Office) and other companies will be considered 1 (one) and 0 (zero), respectively. Control Variables of research were company size, financial leverage, ratio of market value to official value of stock, earnings, operating cash flow and sales growth. Data analysis was performed using linear regression. All analyzes were performed at significance level ($p \leq 0.05$).

RESULTS AND DISCUSSION

Results

To test the hypothesis, Jarque- Bera was used to test the normality of the error. According to the results, test statistic was equal to 23.3 with probability value of 0.19 that indicated the normality of errors was confirmed. Table 1 shows the results of estimating equation. In the models, the statistic of Durbin–Watson statistic was 1.74, which indicated the lack of correlation between the components of disruption in the model. R-square was equal to 11% and showed that the independent variables with probability 11% explained change in systemic risk during the study period from 2008 to 2012 and for 94 companies.

Table 1: The results of integrated data

Variable	Coefficient	Statistic t	P
C	19.23047	61.03743	0.0000
OVERCON	2.847037	39.31342	0.0000
SM	-2.441619	-33.92354	0.0000
SIZE	-3.577434	-67.16253	0.0000
REV	3.31E-08	10.34367	0.0000
CFO	6.48E-07	57.11886	0.0000
MTB	0.273152	21.58292	0.0000
LEV	1.591581	14.23509	0.0000
Overcon*sm	6.6466-	-24.3998	0.0000
R2	R2=0.11		
D-W	D-W=1.74		
F	F Leamr=1182.765		
	P =0.000		

Ownership of management on company stock (OWN), market value to stock official value (MTB), company financial leverage (Leverage), firm size, sales growth, cash flow operating (CFO) and income. According to the table, t-statistics was significant variables and indicated important and significant relationship of more trust management with conservatism variable ($p \leq 0.05$). Results of Table 1 shows that the variable of more reliability of management had a positive and significant effect ($t = 39.3$) on conservative. According to the moderating role of external monitor, there was negative correlation between conservatism and more reliability of management with t statistic, ($t = -24.3998$). As can be seen in Table, F-statistics and P values indicated significant effect of regression model ($p \leq 0.05$).

The R-square for management high trust was 2.84 which revealed that this variable was able to show 284 percent of conservative changes. There was significant relationship between conservatism and more trust of management but with the impact of external supervision, R-square coefficient was equal to -6.66 indicating more trust of management variable was able to show 666 percent of conservative changes in negative direction. Regarding to increase of determination coefficient value after external supervision (modification variable) in negative direction, it can be noted that external supervision reduced the relationship between more trust of management and conservatism.

Based on Durbin–Watson statistic was 1.79, and near to 2 indicated that the errors were independent of each other and there was not the correlation between errors. So, the hypothesis was rejected among errors

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and the regression can be used. Comparing the p value of the test with error efficient of 0.00 can be concluded that there was significant relationship between conservatism and more trust management according to modifying role of external supervision. Due to the negative value of the correlation coefficient, there was a negative correlation between conservatism and more trust management according to modifying role of external supervision.

Discussion and Conclusion

The purpose of this study was to investigate the relationship between conservatism and more trust of management with emphasis on modulator role of the external monitor. The results showed that more trust of management has a positive and significant effect on conservative management. Also, external supervision variable had a significant negative effect on conservatism and there was significant effect between conservatism and more trust management according to the modifying effect of the external supervision.

The results of the study were not consistent with findings of Ahmed and Scott (2012). They showed there was significant negative correlation between trust management and conservatism and external supervision had no effect on it. The described reason for these results demonstrated that managers use their given powers to gain more efficiency and think about their interests and income and external supervision was not effective in changing this thought.

However, our results declared that the relationship between trust and conservative was significant and positive and also, the external supervision was not effective on this relation. With intervention of this variable the relationship between trust management and conservative management was negative and reduced.

Hence, it is notable that in Iran, managers use their given authority to more yield. therefore, they use it to obtain more efficiency of their companies, but external supervision was affected this relationship and caused negative changes in this regard which lead to managers feel contradiction between their interests and company.

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