
The Impact of Conservatism on the Earnings Quality Based on a Moderating Role of Earnings: Evidence from Tehran Stock Exchange (TSE)

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ABSTRACT

Accounting earning and the relevant components are the information considered in decision making. Conservatism is defined as high verification to identify the profits and the loss. This leads to the rapid identification of loss in comparison to profit and this reduces the net value of assets. The conservatism procedure in financial reporting is used to respond the demand for the information to solve agency issues. The present study evaluates the impact of conservatism on earnings quality in the companies listed on Tehran Stock Exchange (TSE) based on the moderating role of earnings management. For hypothesis testing, by the data of financial statements of companies listed on TSE, 81 companies are selected during 2005-2015 using SPSS, version 16 software. The effect of conservatism on moderating effect of earnings management on earnings quality is evaluated. The evidences show that there is a strong and direct relationship between conservatism and earnings quality but when earnings management enters the model as adjusting, the relationship is reduced and the relationship between conservatism with the moderating effect of earnings management on earnings quality is direct, significant but weak.

JEL Classification: L15; Q20.

Keywords: Accounting Conservatism; Management; Earnings Quality.

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1. INTRODUCTION

Accounting earning and the relevant components are the information considered in decision making. This figure is computed and identified based on accruals. Based on accruals, profit is reported if the incomes and costs are fulfilled. In accrual basis, identification of income and costs is not with cash flow payment and in profit calculation, predictions are used. This question is raised how much we can rely on this figure during decision making. The answer to this question is important as taking false decision due to inadequate information leads to unfair resource sharing. The power of managers in using realization & Matching and estimation and prediction are the factors affecting "earnings quality". Due to their awareness of company, it is expected that information be provided as the condition of company is reflected well.

On the other hand, for some reasons as staying in the company, reward and other factors, the managers presents the company condition as good. Thus, earnings quality of companies is affected by reporting basics and competence of their managers. The initial purpose of financial accounting is providing useful information for investors to predict the performance of economic unit. The necessity of profit report as an initial source for decision making of investors, managers and analysts is well documented and earnings report is used by various methods as presenting a basis for tax calculation, a criterion to evaluate the success of performance, a criterion to determine dividends, a criterion for management of profit distribution, a criterion for management of an economic unit and

other items. As the value of company is associated with the present and future profit, profit determination is of great importance (Kordestani and Hedayati, 2010). One of the methods to reduce fraud and present unrealistic reports by management is the increase of qualitative features of financial information. In other words, financial reporting aims to present useful information to the users. The information useful for the users is highly qualified. The qualified features of information content are dedicated to "relevance" and "reliability". The reliable information is without mistake and important biased information and indicates what expected (committee of audit standards). One of the reliable components of financial information is observing the conservatism. By observing conservatism and the increase of qualitative features of financial information, information risk of business unit is reduced and the reduction of risk of business unit leads to the reduction of information asymmetry.

According to Tao (2010) using conservatism in accounting as timely identification of more bad news than good news reduce the expectations of capital market of future performance and securities market value of business unit. This leads to the increase of risk and costs of capital of business unit. In other words, by presenting bad image of financial condition, financial performance and flexibility of business unit, the doubt regarding the return of principal and profit of capital is increased (Sodeyfi & Katircioglu, 2016; Tao, 2010). The results of study increase the recognition of the relationship between accuracy of profit prediction of non-conditional conservatism mechanisms and many evidences are provided regarding the role of mechanism of variables to reduce the conflict between management and shareholders. Today, earnings management, conservatism and earnings quality are challenging issues in accounting. Investors as one of the important factors of decision many, give attention to profit and the researches on this regard are important from behavioral aspects (Noravesh et al., 2005). Based on the significance of issues, this study has an empirical evaluation of the relationship between earnings management and conservatism with earnings quality for the companies listed on TSE.

Earnings management and conservatism are considered as two examples of profit features as studied in the empirical studies of accounting. It is assumed that these two features of profit are based on the effects of management of profit motivations (Katircioglu et al., 2018; Hans Bonde et al., 2008). Earnings management is aimed to mislead some of the beneficiary people regarding economic performance of company to affect the results of contracts reported to the accounting figures (Healy and Wahlen, 1999). Mostly in earnings management, accruals are used as the original method of earnings management. It is because of the nature of these items. Accruals are not observed easily and the information for elimination of their effects on the reported profits is not available easily (Schipper, 1989). Investors are the main principles of markets and financial institutes and search for the information by which suitable decisions are made. Good decision making is based on having access to relevant and reliable information. With low earnings quality, the companies encounter low return in the periods after earnings profit as the investors find about the low earnings quality of companies and the stock price is adjusted based on it (Li et al., 2011). Earnings sustainability is one of the important earnings indices and from the view of investors, the profit with high sustainability is defined as high quality profit as in assessment models, stable profit is better applied (Tomy, 2012).

2. LITERATURE REVIEW

Bayat et al., (2015) were the first authors who studied sustainable profit and had an empirical view of securities. They used the theory of un-misstated profits (stable profit) for the prediction of future expected profit and linked the expected sustainable profit to the equilibrium model of securities. In many studies, the value relevance of accounting information is evaluated (Bayat et al., 2015). Earnings quality means repeatability of current profit. The higher the earnings quality, the higher the capability of business unit to keep the current profit and the earnings quality of business unit is increased. Generally, the higher the profit of users, the better is the decision making and the higher is the quality of profit. Some analysts believe that the higher the ratio of operating cash flow to net profit, the higher the earnings quality. In other words, a business unit with high income and low cash flow can be doubtful to early identification of income or delayed costs.

Goelzer (2010) believes that audit is one of the methods to reduce earnings management and increase quality. It is believed that the companies presenting audited financial statements have high quality information content. The accruals depend upon the judgment of managers and audit of the companies with high accruals is difficult. In the calculation of earnings sustainability, the great emphasis is on the "current" and "operating" terms. Thus, in this concept, profit is considered the value or events in management control based on the decisions of current period but it is adjusted as it includes the factors acquired in the previous period but used in the current period.

Another aspect of earnings sustainability is as the changes are only based on the main activity of company and its comparison with the operation of other companies is possible and the efficiency of management is manifested better. Although unstable items of non-operating activities is affected by management, determining the standards to compare the results with them is difficult (Sloan, 1996). Basu (1997) interpreted conservatism in accounting as timely identification of more bad news than good news. According to Givoly and Carla (2000) and HAY & JETER (2011), accruals are requirements of conservatism in financial reporting. Via giving opinion on discretionary accruals, the managements can cause asymmetry in identification of losses to profits or conservatism behavior in accounting or by opportunistic view on discretionary accruals can perform earnings management.

Conservatism is one of the adjusting promises on accounting and financial reporting. It means that conservatism requires that a method is selected and applied with the lowest effect on assets, income, profit and equity (committee of accounting standards in Iran, 2006). In section 18 of second chapter, theoretical concepts of financial reporting of Iran, conservatism is a minor qualitative feature for reliability as defined: (Application of a degree of monitoring in judgment to estimate in case of ambiguity as the incomes or assets are not overstated or costs and debts are not understated. An example of ambiguities is debt collection, probable life of fixed tangible assets and the probable claims of guaranty of the sold goods and such items are identified carefully with financial statements with the disclosure of their nature. Conservatism has a long history in accounting. Basu (1997) believes that conservatism affects theory and practice of accounting and conservatism is interpreted as bad news is reflected timelier than good news in accounting reports (Tariq & Rasha, 2011). Earnings management occurs when managers use personal judgment in financial reporting and trade structure. Their aim is changing the financial reporting to mislead the stakeholders or affect the contracts based on accounting items (Healy and Wahlen, 1999). Generally, earnings management is possible from two methods: Earnings management based on accounting items and real earnings management.

Schipper (1989) states that earnings management can include real activities. This type of earnings management is performed via the change of operating activities with the aim of misleading the stakeholders. The manipulation of real activities affects cash flows and accruals (Hong-Bok and Gee-Jung, 2008). Due to the flexibility of generally accepted accounting principles, management by the different attempts to give opinion about the earnings accruals. The opinion of management can increase the profit information quality by the report of confidential information (Ansari et al., 2013). Jebali (2016) in a study evaluated the relationship between corporate governance and earnings quality in the companies listed on TSE. The results of study showed that two mechanisms of corporate governance in this study, ownership concentration had negative and significant relationship with earnings quality and the number of non-executing managers had no significant relationship with the earnings quality. Also, earnings quality had positive and significant relationship with control variables of firm size and overinvestment and underinvestment had positive and significant relationship. Shafie (2016) in a study evaluated the relationship between accounting conservatism and earnings quality and stock price of companies listed on TSE. The study results showed that there was a significant relationship between conditional and unconditional conservatism and earnings quality. Also, there is a significant relationship between conditional and unconditional conservatism and stock price.

In other words, the increase of unconditional conservatism is with the low earnings quality (negative relationship between unconditional conservatism and earnings quality with stock price) and the increase of conditional conservatism with the increase of earnings quality (positive relationship between conservatism, earnings quality and stock price). Bayat et al., (2015) in a study evaluated the relationship between earnings sustainability and value relevance of accounting information. The results showed a direct and significant relationship between earnings sustainability and value relevance of information. In other words, with the increase of repeatability of accounting profit, value relevance of accounting information was increased. Generally, earnings unsustainability reduces the profit value relevance as the shareholders can not rely on profit. On the other hand, with the increase of earnings sustainability, predictability of shareholders is increased. Thus, it can lead to the increase of value of information. Other findings of study showed that the changes of earnings per share had positive and significant relationship with ordinary return. Boubakri (2012) in a study evaluated the relationship between accounting conservatism and profit information content in TSE. The findings of study showed that based on three models of conservatism, net profit of companies is conservative and conservatism reduces the information content of net profit.

Heidarpour and Taherverdi (2015) evaluated the impact of earnings management on the relationship between corporate governance and earnings quality. The study includes two independent variables (earnings management and corporate governance), dependent variable (earnings quality) and control variables.

In the main first hypothesis, the relationship between earning management and earnings quality, in the second hypothesis, the relationship between corporate governance and earnings quality and in the third hypothesis, the relationship between earnings management and corporate governance and earnings quality is evaluated. The result of study showed that hypotheses 1,2, 3 were verified and there was a significant relationship between variables. Kordestani and Tatli (2014) identified the efficient and opportunistic approaches of earnings management at earnings quality levels. The findings showed that earnings management in the companies with low earnings quality was opportunistic. Also, in the companies with high earnings quality, opportunistic nature of earnings management is higher than its efficiency. Thus, high earnings management leads to the reduction of earnings quality and dummy data don't lead to true decision making.

Banimahd et al., (2014) in a study evaluated the accounting conservatism and management reward. The results of general test of study models showed that there was a negative relationship between accounting conservatism and management reward. Also, the evidences of study showed that management reward had positive relationship with firm size and profitability ratio. The results of study had no significant relationship between debt ratio and management change with management reward. Khodadadi et al., (2013) evaluated the impact of timeliness and conservatism on information content of profit. The results showed that the companies with high level of timeliness and profit had high profit information content while the companies with high conservatism had low information content. Nakashima and Ziebart (2015) in a study "Did Japanese- sox have an impact on earnings management and earnings quality" found that accruals management for the sample companies in the pre- J- SOX and the post- J- SOX period was considerable but real earnings management for the sample companies was reduced in the post- J- SOX period.

Leif, A. B. & Mattias (2013) evaluated the impact of earnings sustainability and economic condition on the value relevance of accounting information. They divided the companies into two groups in terms of sustainability and non-sustainability. The results of study showed that the companies different in terms of investment due to activity in various industries have different value relevance. Blaylock et al., (2012) evaluated tax avoidance and earnings sustainability. They provided the evidences that the companies with the positive difference of book income and tax of earnings management, earnings sustainability and accruals are lower while if the positive difference of book income and tax income are based on tax avoidance, the profit is sustainable. Boubakri (2012) studied the impact of low reliability of accruals on earnings quality coefficient and response of investors to this phenomenon for Canada capital market. The results showed that low reliability of accruals explained the biases in low earnings quality. In addition, the investors overestimate both groups of accruals with low and high reliability. Ohlson (1995) studied the relationship between earnings sustainability and tax approach for 21667 companies-years during 1998-2009 in US. The results of study showed that in the companies with high uniformity of tax rate, profit before tax and its components had high sustainability. Their study showed that investors perceive the uniformity of tax rate and it was used as a sign to evaluate earnings sustainability before tax and its components.

Abed et al., (2012) in a study " Conservatism level in accounting and its impact on earnings management" applied 259 observations-companies of Jordan companies during 2006-2009 and found that conservatism level was different in Jordan companies and there was a negative relationship between conservatism and firm size with earnings management. Based on the literature that mentioned above, the research hypotheses are proposed as follow:

H1: There is a significant relationship between conservatism and earnings quality.

H2: There is a significant relationship between conservatism based on the moderating role of earnings management and earnings quality.

3. METHODOLOGY

This study is applied in terms of purpose and correlation in terms of nature and multiple regression models are estimated based on pooled data. To measure conservatism, Givoly and Carla model is applied. To measure earnings management, Jones model is used and for earnings quality, Dechow and Dichev model is used. To perform each study, it is required to define the study population. To select study population, we refer to the companies listed on TSE. The information of companies listed on TSE is audited by certified auditors as it is reliability compared to the information of other companies. The access to the information is easier compared to other companies. To conduct the study, during 2005-2015, the information of companies listed on TSE with the following features is collected:

Table 1. The Selection of Statistical Sample

Company	Limitations and conditions
489	Total companies at the end of 2015
(116)	Exclusion of companies before 2005
(107)	Exclusion of companies except the period leading to 29 Esfand and being outside the list, the companies changing their fiscal period.
(163)	Exclusion of holding, banks and investment companies
(70)	Exclusion of companies that their financial information is not available.
33	The number of existing companies in study population after applying conditions and constraints

Thus, the companies not meeting the above conditions are not statistical sample and based on the above conditions, among the TSE companies, the number of study sample is 330 companies. Based on the above conditions and by systematic elimination method, among the companies, the study sample is selected.

For hypothesis test, by theoretical basics, the following mathematical model is applied:

$$SE_{i,t} = \beta_1 + \beta_2 ME_{i,t} + \beta_3 CSCORE_{i,t} + \varepsilon_{i,t} \quad (1)$$

The conservatism level is calculated based on Givoly and Carla model (2000) and the following formula. The higher the value of the formula, the higher is the conservatism level.

$$CSCORE_{it} = \frac{AFCC}{TA} \times (-1) \quad (2)$$

CSCORE_{it}: Conservatism score

AFCC: Operating accruals (difference between net earnings and operational cash flow plus depreciation costs)

TA : Book value of assets

Jones modified model is the strongest model to measure earnings management. In the present study, the mentioned model is used to calculate discretionary accruals. In the modified Jones model, at first total accruals is calculated as follows:

$$TA_{it} = E_{it} - OCF_{it} \quad (3)$$

TA_{it} : Total accruals of company i in year t

E_{it} : Earnings before unexpected items of company i in year t

OCF_{it} : Operating cash flow of company i in year t

After the calculation of total accruals, parameters $\alpha_1, \alpha_2, \alpha_3$ are estimated to determine non-discretionary accruals by the following formula:

$$\frac{TA_{it}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV}{A_{i,t-1}} + \alpha_3 \frac{PPE_t}{A_{i,t-1}} + \varepsilon \quad (4)$$

Where:

TA_{it} : Total accruals of company i in year t

$A_{i,t-1}$: Book value of total asset of company i at the end of year t-1

ΔREV_{it} : The change of sale income of company i during t, t-1

PPE_{it} : Property, plant and equipment of company i in year t

ε_{it} : Indefinite effect of random factors

$\alpha_1, \alpha_2, \alpha_3$: The estimated parameters of company i

After the calculation of $\alpha_1, \alpha_2, \alpha_3$ parameters via the least squares method, non-discretionary accruals are defined as:

$$NDA_{it} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{A_{i,t-1}} \quad (5)$$

Where,

NDA_{it} : Non-discretionary accruals of company i in year t

ΔREC_{it} : The change of accounts received of company i during t,t-1

Finally, discretionary accruals (DA) are computed after determination of NDA as:

$$DA = \frac{TA}{A_{i,t-1}} - NDA \quad (6)$$

To evaluate earnings quality, a uni-variate equation is used in which the profit of current period is based on the previous period profit. In this model, profit persistence is the agent of earnings quality.

$$EARN_{i,t} = \alpha_0 + \alpha_1 EARN_{i,t-1} + \varepsilon_{i,t} \quad (7)$$

Where,

$EARN_{i,t}$: Earnings of current period before unexpected items

$EARN_{i,t-1}$: Earnings of previous period before unexpected items

$\varepsilon_{i,t}$: Residual of regression model

This test is performed for all years of study period via the data of sample companies and α_1 (independent variable) is the earnings quality factor in the study.

Control variables are:

SIZE: Firm size achieving by the logarithm of total assets.

LEV: Ratio of total liabilities to assets and ROA: The return on asset equal to the ratio of earnings to total assets

4. RESULTS AND DISCUSSION

Descriptive statistics: If the mass of quantitative data for study is collected, at first their summarization is necessary as it is perceived significantly. The descriptive statistics methods are used for this reason. The first step in organizations is ordering the data based on a logical criterion.

Table 2. Description of Variables

No.	Variable type	Variable	N	Mean	SD	Variance	Min	Max	Skewness	Kurtosis
1	Independent variable	Conservatism	330	-0.0136	0.15230	0.023	-0.90	0.59	0.76-	0.813
2	Moderating variable	Earnings management	330	-0.3311	0.26378	0.070	2.24-	0.18	0.5-	0.66-
3	Dependent variable	Earnings quality	330	7.1009	30.48431	929.293	220.66-	559.88	1.0459	2.0252
4	Control variables	Firm size	330	12.8159	1.82151	3.318	9.04	18.55	0.134	0.268
5		ROA	330	0.2699	2.95	8.7	0.38-	53.19	0.136	0.271
6		Total of assets to liabilities	330	98.5515	1411.9	1993503.6	0.00	25463.66	0.184	0.368

Based on the values of skewness and kurtosis of variables in the above Table, all values are ranging 2,-2. Thus, we can consider data distribution as normal. To evaluate the study hypotheses, regression model is used in which dependent variable is earnings quality and independent variables are conservatism and earnings management and by regression model, we can determine the relationship between variables.

Table 3. Pearson Coefficients

Correlation						
		Earning quality	Conservatism	Firm size	Return rate	Liability to asset ratio
Pearson correlation coefficient	Earnings quality	1.000	.145	-.001	-.007	.000
	Conservatism	*	1.000	-.013	.002	.016
	Firm size	*	*	1.000	-.021	-.133
	Return rate	*	*	*	1.000	-.005
	Liability to debt ratio	*	*	*	*	1.000

Based on Pearson correlation coefficient, there is a weak and direct relationship between conservatism and earnings quality and variables of control of size, return rate had weak and inverse relationship and ratio of debt to asset had no relationship with earnings quality.

$$SE = \beta_0 + \beta_1 \text{ CSCOREt} + \beta_2 \text{ SIZE} + \beta_3 \text{ ROV} + \beta_4 \text{ LEV} + \varepsilon_i \quad (8)$$

To evaluate and present conservatism model on earnings quality after the evaluation of adequacy indices are shown as in Table 4.

Table 4. Adequacy Indices of Model

Model	Correlation coefficient	Coefficient of determination	Adjusted coefficient of determination	Estimation of error standard deviation
1	0.146	0.021	0.009	30.7125

The correlation between independent and dependent variable is 0.146 and the coefficient of determination is 0.02 and it shows that 2% of changes of dependent variable of earnings quality are determined by independent variable of conservatism (Table 5).

Table 5. The Significance Test of Regression

Model		Sum of square	Degree of freedom	Mean of squares	F statistics	Significance level
1	Regression	6452.468	1	1613.117	1.710	0.000
	Residuals	298071.018	328	943.263		
	Total	304523.486	329			

In the table of variance analysis, with significance level 0.000 as lower than 0.05, it shows the significance of regression model (Table 6).

Table 6. Regression Model Coefficients

Model		Non-standard coefficients		Standardized coefficients	T statistics	Significance level
		Beta	Error standard deviation	Beta		
1	Constant	7.520	12.766		0.589	.000
	X1= conservatism	29.353	11.236	0.145	2.612	00.009
	X2= Firm size	0.015-	0.991	0.001	0.015	0.001
	X3 = ROA rate	0.075-	0.579	0.007-	0.130-	0.007
	X4 = The ratio of sum of liabilities to assets	0.0000	0.001	0.002-	0.033-	0.052

a. Dependent variable: Earnings quality

The regression equation by coefficients is as follows:

$$SE = 7.520 + 29.35 \text{ CSCORE}_t - 0.015 \text{ SIZE} - 0.075 \text{ ROV} + \varepsilon_i \quad (9)$$

Control variable LEV is excluded due to zero coefficient and non-significance in the model-significance level higher than 0.05. It shows that for one-unit increase of conservatism, earnings quality is increased as 29.353 and control variables of firm size is effective as -0.015 on the model and the return rate has inverse effect but it is little as -0.075 and the sum of debt to asset has no effect on the presented model (Figure 1).

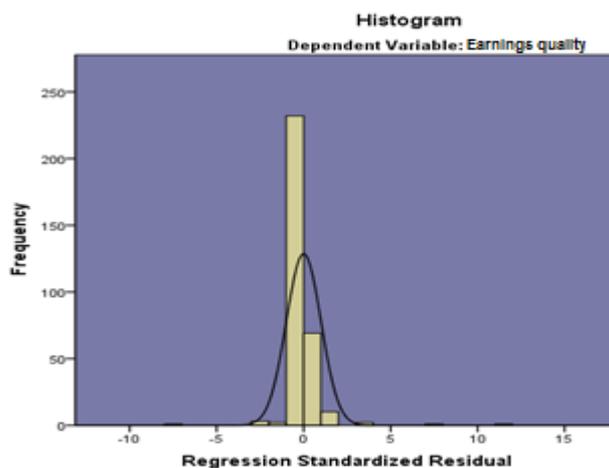


Figure 1.
Regression Standardized Residual

Based on Pearson correlation coefficient, there is a weak and direct relationship between conservatism and earnings management effect on earnings quality and variables of control of size, return rate had weak and inverse relationship and ratio of debt to asset had no relationship with earnings quality (Table 7).

Table 7. Pearson Coefficients

Correlation						
		Earning quality	Conservatism with the effect of earning management	Firm size	Return rate	Liability to asset ratio
Pearson correlation coefficient	Earnings quality	1.000	-.140	-.001	-.007	.000
	Conservatism with the effect of earnings management	*	1.000	-.017	.002	-.009
	Firm size	*	*	1.000	-.021	-.133
	Return rate	*	*	*	1.000	-.005
	Liability to debt ratio	*	*	*	*	1.000

Regression model fit:

$$SE = \beta_0 + \beta_1 (\text{CSCOREt*ME}) + \beta_2 \text{SIZE} + \beta_3 \text{ROV} + \beta_4 \text{LEV} + \epsilon_i \quad (10)$$

To evaluate and present conservatism model based on the moderating role of earnings management on earnings quality after the evaluation of adequacy indices are shown as:

Table 8. Adequacy Indices of Model

Model	Correlation coefficient	Coefficient of determination	Adjusted coefficient of determination	Estimation of error standard deviation
1	0.140	0.02	0.007	30.738

The correlation between independent and dependent variable is 0.140 and the coefficient of determination is 0.02 and it shows that 2% of changes of dependent variable of earnings quality are determined by independent variable of conservatism with the moderating effect of earnings management.

Table 9. Significance Test of Regression

Model		Sum of square	Degree of freedom	Mean of squares	F statistics	Significance level
1	Regression	5952.632	1	1488.158	1.575	0.009
	Residuals	298570.854	328	944.844		
	Total	304523.486	329			

In the table of variance analysis, with significance level 0.009 as lower than 0.05, it shows the significance of regression model (Table 10).

Based on Table 10, Regression equation of the coefficients of column is as follows:

$$SE = 8.173 - 72.675 (\text{CSCOREt*ME}) - 0.061 \text{SIZE} - 0.070 \text{ROV} + \epsilon_i \quad (11)$$

Control variable LEV is excluded due to zero coefficient and non-significance in the model-significance level higher than 0.05.

Table 10. Regression Model Coefficients

Model		Non-standard coefficients		Standardized coefficients	T statistics	Significance level
		Beta	Error standard deviation	Beta		
1	Constant	8.173	12.781		0.640	.000
	X1= conservatism with the moderating effect of earnings management	72.675-	28.990	0.140-	2.507-	0.013
2	X2= Firm size	0.061-	0.992	0.003-	0.062-	0.041
3	X3 = ROA rate	0.070-	0.579	0.007-	0.120-	0.04
4	X4 = The ratio of sum of liabilities to assets	0.000	0.001	0.001-	0.024-	0.0581

a. Dependent variable: Earnings quality

Equation (11) shows that for one unit increase of conservatism with the moderating effect of earnings management, earnings quality is increased as 72.6 and control variables of firm size is effective as 0.061 on the model and ROA rate has inverse effect but it is little as 0.070 and both have inverse effect by very low value on the model and the sum of liability to asset has no effect on the presented model.

5. CONCLUSION

The present study evaluates the impact of conservatism on earnings quality in the companies listed on Tehran Stock Exchange (TSE) based on the moderating role of earnings management. Based on the results, the highest effect of conservatism is on earnings quality but when earnings management was effective as a moderating variable on conservatism, the relationship between conservatism and earnings quality is reduced considerably and it moves to an inverse relationship. Thus, earnings management to compute earnings quality is not suitable and we should use conservatism. Regarding control variables, the firm size and ROA had inverse impact on the model but the sum of debt to asset had no effect on the model.

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