Studying Conservatism and Asymmetry Timeliness of Profit Detection in Tehran Stock Exchange

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Abstract

The present paper aims at studying conservatism and time asymmetry of profit detection as the criteria of evaluating conditional conservatism. To this end, market to book relations vary due to reaction of profit to good news, reaction of profit to bad news, asymmetry timeliness of profit detection and how these relations vary simultaneously with periods used for estimation. The extant paper used data regarding companies accepted in Tehran Stock Exchange from 2003 to 2009. Synthetic data approach and multivariable linear regression model during three periods of a year, two years and three years. The obtained results indicated that in general there is a negative relation between criterion of conditional conservatism and criterion of unconditional conservatism.

Keywords: Conservatism, Unconditional conservatism, MTB (market to book ratio), asymmetry timeliness of profit detection

Introduction

One of the goals of financial report is periodically summarizing information regarding financial performance of commercial unit. According to conceptual statement 1 of Financial Accounting Standards Board, profit plays an important role in measuring performance of companies. Profit plays an important role in evaluation of management performance; therefore, directors are motivated to display that the condition of the company is desirable. Hence, accounting profit and real profit are different. Therefore, the quality of proposed information of companies particularly the quality of their profit plays a significant role in proper decision making of users of financial forms.

Francis, LaFond, Olsson and Schipper (2005) suggested seven criteria for quality of service including accruals, consistency, predictability, being flat, value relevance, timeliness and conservatism. Also, according to theoretical concepts, financial reports are useful information that has qualitative features. These qualitative features are related to information content and are reliable. Conservatism is a feature of reliability.

For the sake of destructive effects of information asymmetry between directors and investors, accountants and researchers have focused on discovering a proper tool for solving this problem. Researches reveal the role of conservatism in reduction of information asymmetry.

In conceptual statement 2 of Financial Accounting Standards Board, conservatism is defined as showing conservative reactions to existence of ambiguity in order to make sure ambiguity and the possible dangers have been sufficiently considered. Financial Accounting Standards Board of the USA has not defined or categorized conservatism as qualitative feature. However, in clause 18 of the second chapter of theoretical concepts and financial reports of Iran, conservatism is regarded as “caution” and a qualitative feature of reliability. It is defined as the application of a degree of caution that is required for estimating in ambiguous conditions so that incomes do not be proposed more and

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expenses or debts do not be proposed less than what they really are.

A sample of previously mentioned ambiguities include ability to collect receivables, the probable useful life of tangible fixed assets, the number and extent of potential claims regarding the guarantee of sold commodities. These items are detected by respecting caution while providing financial forms and revealing their nature and their extent.

Artiarch and Clarkson believed the concept of conservatism leads into a sort of ambiguity in accounting reports and is a primary and not advanced solution. Also, financial reports based on conservation concept makes accounting reports and information analyzable even for the most professional users. Also, the concept of conservatism is in contrary to the principle of complete disclosure. Therefore, there are not many integrated indexes and criteria for the application of this concept (Artiach & Clarkson, 2011).

Theoretical framework

Conservatism is an important index of financial report that is discussed during a long-term period in accounting theory and plays an important role. Traditionally accounting conservatism is defined as "Do not predict a profit, but predict all losses" (Bliss, 1924).

Shabahang (2008) claims according to providers of financial forms, conservatism is an effort for selecting a method from the accepted accounting methods that leads to one of the following items including slower detection of sale income, faster detection of expenses, fewer evaluation of assets, and more evaluation of debts.

Watts and Zimmerman (1986) asserted that "Conservatism means accounting should regard assets as the least important and the debts as the most important. According to them, incomes should be detected later and expenses should be detected sooner.

Conservatism is the required different verifiability for detecting incomes and expenses that makes the profit and assets seem less valuable (Basu, 1997).

According to Beaver and Ryan (2000), conservatism is the conflict between market value and book value that are developed because of accumulation of economic profit and losses in book value. In general, conservatism is the concept that leads to decrease in accumulated profit through faster detection of expenses, low evaluation of assets and high evaluation of debts.

According to Beaver and Ryan, it is not possible that the ratio of book value to market value equal one. The value of markets of assets and debts include change in assets in each period; however, these changes are not recorded in financial accounts and reports.

In conservative accounting, increase in assets (profit) are not recorded; however, decreases with the same significance are recorded. Therefore, net assets are reported as less than their real value, and less than market value. Also, they claim that the difference between market values and book values is a function of two components:

1- Biased identification of accounting items
2- Delayed identification of accounting items

They assert that the biased component reflects constant differences between market values and book values. A part of this results from conservatism in measurement and primary recognition of items in financial forms. The other part reflects transient fluctuations in the entire market. They also suggest that the component

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that has delay reflect temporary differences between market values and book values resulted from delay in accounting system regarding registration and detection of unexpected profits and losses.

Asymmetry at the time of profit

In 1997, Basu studied the impacts of news in a specific period on the profit of the company. Basu used return on equity as the replacement for news. Stock prices reflect market information that are achieved through various resources other than current profit. Therefore, changes in the price of stocks is a criterion for entrance of news during that period.

Two features of Basu criterion are very valuable and remarkable.

1- Criterion of Basu solely uses yields and profit of a period for the sake of estimation of timeliness asymmetry. This asymmetry is an inferential period from asymmetric verifying standards. As profit within a period does not evaluate the entire book value, this periodic asymmetry is not a criterion of entire conservatism.

Total conservatism within discussed framework reflects the accumulated effect of asymmetry timeliness during previous periods. Therefore, total conservatism is not solely affected by response of the profit of a period to the yields but is affected by the response of accumulated profit to yields during lifetime of the company.

2- Criterion of Basu regards the criterion as changes in exchange value (EV). Therefore, as MTB reveal the value of rents, Basu criterion indicates changes in values of rents. If accounting does not response to rents, profit will not response to increase or decrease of rents.

According to this assumption that changes in rents are not correlated to changes in net value of detectable assets, when yields are due to changes of rents, the timely response of profit to positive and negative yield will be low. This problem become more serious when yields and profits are measured during short periods.

In longer periods, it is expected that rents turn into detectable assets or be destructed. When rents are turned into detectable assets, they are reduced to recorded book value and the value of these recorded asset will be reduced when there are bad news. Therefore, the measurement error resulted from rents that were mentioned regarding the response of profit to good news and bad news should be reduced when criteria of asymmetry are estimated in longer periods. Therefore, one can infer that when the period of Basu criterion is more than a period, it will be a very good criteria for measuring conservatism and will reduce measuring errors that are correct about MTB and asymmetry as well (Xia & Zhu, 2009).

Research hypotheses

Regarding the existing theories and the literature review, the present paper has two hypotheses.
First hypothesis: Reaction of profit to bad news (β) has a negative relation with ratio of MTB of the beginning of estimation period.
Second hypothesis: Reaction of profit to bad news ($\beta\gamma+$) had a negative relation with ratio of MTB of the beginning of estimation period.

Methodology

In the present paper, data gathering has been done in two stages. In the first stage, library method has been used for gathering theoretical basics of the research. In the second stage, in order to

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gather information regarding financial forms, data proposed to stock exchange and other related data resources including TadbirPardaz database has been used. Descriptive statistics, Pearson correlation coefficient table, linear regression with synthetic data and equation system with synthetic data. Collected data were entered to EXEL software; required processes have been done on them; needed variables were extracted and were then entered into EViews7 software.

Statistical models and operational definition of variables

After gathering and preparing the data, in order to have a general perspective the following model is proposed using the results of estimation of Basu model in retrospective time periods:

$$E_{t+1,t+k}/P_1 = \alpha + \eta DR_{t+1,t+k} + \beta R_{t+1,t+k} + \gamma R_{t+1,t+k} DR_{t+1,t+k} + \varepsilon_t \quad (1)$$

Then in order to test the first and the second hypotheses, the following model with synthetic data method was proposed.

$$E_{t+1,t+k}/P_1 = \alpha_0 + \alpha_1 MTB\_RANK_t + \eta_0 DR_{t+1,t+k} + \eta_1 MTB\_RANK_t DR_{t+1,t+k} + \beta_0 R_{t+1,t+k} + \beta_1 MTB\_RANK_t R_{t+1,t+k} + \gamma_0 R_{t+1,t+k} DR_{t+1,t+k} + \gamma_1 MTB\_RANK_t R_{t+1,t+k} DR_{t+1,t+k} + \varepsilon_t \quad (2)$$

In the above models:

$E_{t+1,t+k}$ is the accumulated profit in $t+1$ to $t+k$ periof in which *k* varies from one to three. The particular case in which k=1 reveal profit of $t+1$ year without accumulation.

$R_{t+1,t+k}$ is the accumulated yield of stock from year t till the end of year t + k

P_t is the value of stock market at the end of the year t

$DR_{t+1,t+k}$ is a false variable that has two values. If $R_{t+1,t+k}$ is negative, it will equal 1. Otherwise it will equal zero.

MTB_RANK is a ranking variable made based on MTB of each company at the end of year t. Each year, companies are ranked and ordered into five classes based on the value of MTB. Lower ranks are allocated to companies with lower MTB ratio, and higher ranks are allocated to companies with higher MTB ratio.

Since this model consider profit and yield for the following years and the MTB_RANK variable is considered for the current year, the MTB_RANK variable plays the role of the ratio of market value to book value of the beginning of the period. According to first hypothesis, it is expected that in model (3-3) coefficient of variable $\beta_1 MTB\_RANK_t R_{t+1,t+k}$ is negative and significant for all periods. Also, based on the second hypothesis, it is expected that in model (2) the coefficient of variable $MTB\_RANK_t R_{t+1,t+k} DR_{t+1,t+k}$ is also negative and significant.

Testing research hypotheses

Testing the first and the second hypotheses

First, in order to have a general point of view regarding the results of estimation of Basu model in perspective time periods, model (1) is estimated with approach of synthetic data and the results are proposed in table 1.Significance of Limer statistics (5/37) and lack of significance of Hausman test (4/78) reveal that in the first column of Figure 1, model 1 is estimated with the approach of random impacts. Also, significance of Limer test (7/77) and lack of significance of Hausman test (1/44) indicated that in the second column of Figure 1, model (1) is estimated with the approach of random impacts. In the third column, lack of significance ofLimer test (1/71)

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reveal that in this column model (1) is estimated with the mentioned method.

The results of estimation of models reveal that intercept in each of the three columns (0/1732, 0/3422 and 0/3873) is significant at the significance level of 1%. Coefficient of variable $DR_{t+1,t+k}$ in the first and the third column (-0/0513) in the level of 1% and in the second column (-0/1061) at the level of 5% is negative and significant. Coefficient of variable $R_{t+1,t+k}$ (good news) in each of the three columns (0/0787, 0/1538 and 0/ 3397) is positive and significance at the level of 1%. Coefficient of variable $R_{t+1,t+k}DR_{t+1,t+k}$ (coefficient of timely asymmetry of the profit) in the first and second columns (0/1767 and 0/2509) is positive and significant. This is in accordance with predictions of Basu. This is in accordance with Basu predictions. However, the coefficient is negative and significant in the third column (-0/3466)and is not in accordance with Basu predictions.

The coefficient relevant to the bad news ($\beta + \gamma$) is also positive and significant in the first and second columns (0/2554 and 0/4047) and is in accordance with Basu prediction. However, it is not the same about the third column. The results of the remained three lines study the significance of difference of β_1, γ_1 and $\beta_1 + \gamma_1$ of each column in comparison to the previous column. In general, the results proposed in these lines reveal that there is a significant difference between the coefficients of each column compared to the previous column.

Table 1- The estimated results of model (1)

k=3	*k=2*	*k=1*	Variables/models
0/3873 (11/54)**	0/3422 (7/33)**	0/1732 (8/73)**	y-intercept
-0/1649 **(-3/28)****	**-0/1061** **(-2/55)***	**-0/0513** **(-2/67)****	$\eta(DR_{t+1,t+k})$
0/3397 **(15/76)****	**0/1538** **(8/80)****	**0/0787** **(6/27)****	$\beta(R_{t+1,t+k})$
-0/3466 **(-15/33)****	**0/2509** **(2/84)****	**0/1767** **(3/23)****	$\gamma(R_{t+1,t+k}DR_{t+1,t+k})$
-0/0069 **(-1/01)**	**0/4047** **(4/67)****	**0/2554** **(4/88)****	$\beta + \gamma$
0/1859 **(22/38)****	**0/0751** **(161/50)****		difference in β in comparison to the previous column
-0/5975 **(-71/92)****	**0/0742** **(6/88)****		difference in γ in comparison to the previous column
-0/4116 **(-54/53)****	**0/1493** **(14/57)****		difference in $\beta + \gamma$ in comparison to the previous column
31/10%	**19/99%**	**11/91%**	Adjusted R Square
131/94**	**(0/00) 95/37****	**(0/00) 66/43****	Fisher statistics (significance)

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(0/00)			
(0/14) 1/71	**(0/00) 7/77****	**(0/00) 5/37****	F statistics of Limer (significance)
---	**(0/69) 1/44**	**(0/19) 4/78**	Hausman statistics (significance)

*and**significance at the level of 1% and 5%

Note: In the first section, numbers in the parentheses are the statistics of t student and in the lower section the numbers in the parentheses are significance levels.

The results of the estimation of model reveal that the intercepts of the three columns (0/1732, 0/3422 and 0/3873) are significant at the level of 1%. The coefficient of variable $DR_{t+1,t+k}$ in is negative and significant at the first and the third columns (-0/0513) the level of 1% and in the second column (-0/1061) at the level of 5%. The coefficient variable of $R_{t+1,t+k}$ (good news) is positive and significant at the level of 1% in three columns of (0/1732, 0/3422 and 0/3873). Coefficient of variable $R_{t+1,t+k}DR_{t+1,t+k}$ is positive and significant in the first and the second columns (0/1767, 0/2509). This is in accordance with Basu predictions. However, the coefficient is negative and significant in the third column (-0/3466) and is not in accordance with Basu predictions.

The coefficient related to bad news $(\beta + \gamma)$ is positive and significant in the first and the second columns (0/4047and 0/2554) and is in accordance with Basu predictions. However, the coefficient is not the same in the third column. The results of the remained three lines study significance of difference of coefficientsβ_1, γ_1 and $\beta_1 + \gamma_1$of each column compared to the previous column. In general, the results proposed in these lines reveal that there is a significant difference between the coefficients in each column compared to the previous one.

Table 2- The results of estimation of model (1)

k=3	***k=2***	***k=1***	Variables/models
0/3873 (11/54)**	0/3422 (7/33)**	0/1732 (8/73)**	y-intercept
-0/1649 (-3/28)**	-0/1061 (-2/55)*	-0/0513 (-2/67)**	$\eta(DR_{t+1,t+k})$
0/3397 (15/76)**	0/1538 (8/80)**	0/0787 (6/27)**	$\beta(R_{t+1,t+k})$
-0/3466 (-15/33)**	0/2509 (2/84)**	0/1767 (3/23)**	$\gamma(R_{t+1,t+k}DR_{t+1,t+k})$
-0/0069 (-1/01)	0/4047 (4/67)**	0/2554 (4/88)**	$\beta + \gamma$
0/1859 (22/38)**	0/0751 (161/50)**		difference in β in comparison to the previous column
-0/5975 (-71/92)**	0/0742 (6/88)**		difference in γ in comparison to the previous column
-0/4116	0/1493		difference in $\beta + \gamma$in comparison to the previous

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(-54/53)**	(14/57)**		column
31/10%	19/99%	11/91%	Adjusted R Square
131/94** (0/00)	(0/00) 95/37**	(0/00) 66/43**	Fisher statistics (significance)
(0/14) 1/71	(0/00) 7/77**	(0/00) 5/37**	F statistics of Limer (significance)
---	(0/69) 1/44	(0/19) 4/78	Hausman statistics (significance)

*and ** significance at the level of 1% and 5%

Note: In the first section, numbers in the parentheses are the statistics of t student and in the lower section the numbers in the parentheses are significance levels.

The results of the estimation of model reveal that the intercepts of the three columns (0/1732, 0/3422 and 0/3873) are significant at the level of 1%. The coefficient of variable $DR_{t+1,t+k}$ in is negative and significant at the first and the third columns (-0/0513) the level of 1% and in the second column (-0/1061) at the level of 5%. The coefficient variable of $R_{t+1,t+k}$ (good news) is positive and significant at the level of 1% in three columns of (07870/, 15380/ and 33970/). Coefficient of variable $R_{t+1,t+k}DR_{t+1,t+k}$ is positive and significant in the first and the second columns (0/1767, 0/2509). This is in accordance with Basu predictions. However, the coefficient is negative and significant in the third column (-0/3466) and is not in accordance with Basu predictions.

The coefficient related to bad news $(\beta + \gamma)$ is also positive and significant in the first and the second columns (0/4047 and 0/2554) and is in accordance with Basu predictions. However, the coefficient is not the same in the third column. The results of the remained three lines study significance of difference of coefficientsβ_1, γ_1 and $\beta_1 + \gamma_1$of each column compared to the previous column. In general, the results proposed in these lines reveal that there is a significant difference between the coefficients in each column compared to the previous one.

Table 3- The results of estimation of model (1)

k=3	*k=2*	*k=1*	Variables/models
0/3873 (11/54)**	0/3422 (7/33)**	0/1732 (8/73)**	y-intercept
-0/1649 (-3/28)**	-0/1061 (-2/55)*	-0/0513 (-2/67)**	$\eta(DR_{t+1,t+k})$
0/3397 (15/76)**	0/1538 (8/80)**	0/0787 (6/27)**	$\beta(R_{t+1,t+k})$
-0/3466 (-15/33)**	0/2509 (2/84)**	0/1767 (3/23)**	$\gamma(R_{t+1,t+k}DR_{t+1,t+k})$
-0/0069 (-1/01)	0/4047 (4/67)**	0/2554 (4/88)**	$\beta + \gamma$
0/1859 (22/38)**	0/0751 (161/50)**		difference in β in comparison to the previous column

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-0/5975 (-71/92)**	0/0742 (6/88)**		difference in γ in comparison to the previous column
-0/4116 (-54/53)**	0/1493 (14/57)**		difference in $\beta + \gamma$ in comparison to the previous column
31/10%	19/99%	11/91%	Adjusted R Square
131/94** (0/00)	(0/00) 95/37**	(0/00) 66/43**	Fisher statistics (significance)
(0/14) 1/71	(0/00) 7/77**	(0/00) 5/37**	F statistics of Limer (significance)
---	(0/69) 1/44	(0/19) 4/78	Hausman statistics (significance)

*and ** significance at the level of 1% and 5%

Note: In the first section, numbers in the parentheses are the statistics of t student and in the lower section the numbers in the parentheses are significance levels.

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Adjusted R Square indicates that independent variables in the first, second and third columns determine 12%, 31% and 20% of changes of the dependent variable. Significance of Fisher statistics in the three columns (66/43, 95/37 and 131/94) indicate the general significance of the model. Then, in order to test the first and the second research hypotheses, model (2) is estimated using synthetic data, and the results are proposed in table 3 and 4. The first, second and third columns of Figure 3 propose model 2 as k=1, 2, 3. The results of selecting pattern tests indicate that all the three columns of a model should be estimated using the approach of fixed effects. The results of estimation of the model use the approach of fixed effects to demonstrate intercepts (0/4991, 0/5653, 0/2160) are significant at the confidence level of 1%. The coefficient of variable MTB_RANK_t is solely significant for the second column (0/0677) at the level of 1%. However, it is not significant for other columns. The coefficient of variable $DR_{t+1,t+k}$ is significant in the first and the second columns (-0/2295, -0/1059) at the level of 5%. However, it is not significant for the third column. The coefficient of variable $MTB\_RANK_t * DR_{t+1,t+k}$ is not significant in any of the columns. The coefficient of variable $R_{t+1,t+k}$ is positive and significant at the level of 1% in three columns (0/5440, 0/1065, 0/0940). The coefficient of variable $MTB\_RANK_t R_{t+1,t+k}$ is solely significant in the third column (-0/0669) at the level of 1%. According to the first hypothesis, it is expected that all the recent variables be negative and significant. The coefficient is negative in the first column but not significant. In the second column, the coefficient is positive but not significant. In other words, in the discussed statistical sample, this coefficient is negative and significant solely for long term time periods (three years). According to the obtained results, it can be said that the first research hypothesis is weakly confirmed. The coefficient of variable $R_{t+1,t+k} DR_{t+1,t+k}$ is significant at the level of 1% in three columns (0/4883, 1/4620 and -0/5238). The coefficient of variable $MTB - RANK_t R_{t+1,t+k} DR_{t+1,t+k}$ is negative and significant in the first and second columns (-0/3299, -0/0814) at the level of 1% and 5% respectively. However, it is positive and significant in the third column. According to the second hypothesis, it is expected that the coefficient is negative and significant for all periods. However, solely two columns have these conditions. In general, regarding the obtained results, it can be said that the second hypothesis is generally accepted.

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Table 4- The results of estimation of model (2) 1

The ratio of market value to book value and timeliness asymmetry in the future			
k=3	*k=2*	*k=1*	Variables/models
0/4991	0/5653	0/2160	y-intercept
(5/52)**	(10/82)**	(7/79)**	
-0/0305	-0/0677	-0/0147	$\alpha_1(MTB\_RANK_t)$
(-1/19)	(-4/60)**	(-1/83)	
-0/2198	-0/2295	-0/1059	$\eta_0(DR_{t+1,t+k})$
(-1/47)	(-2/21)*	(-2/18)*	
0/0163	0/0443	0/0210	$\eta_1(MTB\_RANK_t * DR_{t+1,t+k})$
(0/41)	(1/56)	(1/53)	
0/5440	0/1065	0/0940	$\beta_0(R_{t+1,t+k})$
(10/07)**	(2/73)**	(3/27)**	
-0/0669	0/0161	-0/0011	$\beta_1(MTB\_RANK_t R_{t+1,t+k})$
(-4/29)**	(1/43)	(-0/14)	
-0/5238	1/4620	0/4883	$\gamma_0(R_{t+1,t+k} DR_{t+1,t+k})$
(-7/10)**	(6/27)**	(3/50)**	
0/0614	-0/3299	-0/0814	$\gamma_1(MTB - RANK_t R_{t+1,t+k} DR_{t+1,t+k})$
(3/29)**	(-5/40)**	(-2/18)*	
-0/0055	-0/3138	-0/0825	$\beta_1 + \gamma_1$
(-0/54)	(-5/22)**	(-2/27)*	
-0/083	0/0172		difference in β_1 in comparison to the previous column
(-225/05)**	(87/76)**		
0/3913	-0/2485		difference in γ_1 in comparison to the previous column
(95/93)**	(-48/49)**		
0/3083	-0/2313		difference in $\beta_1 + \gamma_1$ in comparison to the previous column
(83/02)**	(-46/95)**		
35/45%	31/22%	17/20%	Adjusted R Square
(0/00) 67/48**	(0/00) 42/18**	(0/00) 22/92**	Fisher statistics (significance)
(0/00) 1/66**	(0/00) 8/94**	(0/00) 5/62**	F statistics of Limer (significance)

*****and ****** significance at the level of 1% and 5%

Note: In the first section, numbers in the parentheses are the statistics of t student and in the lower section the numbers in the parentheses are significance levels.

Note 2: Limer statistics reveal that in all the three time periods, the model of fixed effects are preferred to the bound model. Since in estimating the sample, the number of sections are more than coefficients, the model cannot be estimated with approach of fixed effects. Therefore, the approach of fixed effects is chosen for estimation of models.

Also, the proposed results indicate that the sum of coefficient of variables $MTB\_RANK_t R_{t+1,t+k}$, $(\beta_1 + \gamma_1) MTB\_RANK_t R_{t+1,t+k} DR_{t+1,t+k}$ is negative in three columns (-0/0825, -0/3138, -0/0055) but is solely significant in the first and the second columns at the level of 1% and 5%.

The results of the remained three lines study the significance of difference of coefficient β_1, γ_1 and $\beta_1 + \gamma_1$ of each column in comparison to the previous column. The results proposed in these lines indicate that there is a significant difference between the coefficients of each column compared to the

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previous column. Also, the adjusted R Square reveal that dependent variables in the first, second and third column respectively determine 17%, 31% and 35% of changes of the dependent variable. Significance of Fisher statistics in the three columns (67/48, 42/18 and 22/92) indicate the general significance of model.

Discussion and results

In the first research hypothesis, it is predicted that the reaction of profit to good news (β) have a negative relation with the MTB ratio of of the beginning of period of estimation. The results reveal that the coefficient related to good news regarding the MTB ratio is negative and significant solely for long term time periods (three years). According to this, it can be said that the first hypothesis is weakly confirmed and is in accordance with results of (Belkaouiriahi, 2000).

In the second research hypothesis, it is expected that the reaction of profit to bad news ($\beta + \gamma$) has a negative relation with the ratio of the beginning of estimation period. The results of the text reveal that the coefficient of timeliness asymmetry of profit is negative and significant regarding the MTB ratio for most time periods. Therefore, it can be said that the second hypothesis is generally accepted and in accordance with the results of Watts.

Suggestions for future researches

1- The present paper benefited from Basu model. It is suggested that other methods be used in future researches for evaluating conservatism.
2- It is suggested to study the relation between conservatism and other evaluation criteria including Criteria based on accruals.

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