Studying the Effective Factors on Level of Accounting Conservatism in Financial Statements

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ABSTRACT

The aim of this research paper is to study the effective factors on Level of Accounting Conservatism in financial statements in companies listed on Tehran Stock Exchange (TSE). To achieve our aim, we have chosen 99 companies for the fiscal years between 2003-2009. We have used the two approaches of Basu model (1997) and Book-to-Market ratio. These approaches study the effect of Level of Accounting Conservatism and effective factors (company size and debt contracts) on it. Company sizes divided into two parts of big and small companies regarding the amounts of assets. Also regarding debt contracts, companies were divided into two groups of high and low leverage companies, namely. The evidences resulted from Basu (1997) model show that companies listed on the Tehran Stock Exchange (TSE) are in a conservative way. To reinforce these results we have also used Book-to-Market approach to test Accounting Conservatism in financial reports. We have used parametric and non-parametric statistics to test hypotheses. Parametric and non-parametric test approved the results of Basu (1997) model and identified that financial statements of companies listed on the (TSE) have a reasonable level of Conservatism. As a result, big companies have more Conservatism than small companies. Also results gained from debt contracts show that companies with higher financial leverage are more conservatively. Our results accord with findings of Watts & Zimmerman (1987), and Ahmed & et al (2002).
KEYWORDS: Accounting Conservatism, Financial Statements, Tehran Stock Exchange (TSE)

1. INTRODUCTION

Conservatism is thought to be one of the traditional principles of accounting items in lack of assurance conditions. Although this principle has been criticized for long years, it has not been changed and during the latest 30 years it has been increasingly used in measurement and financial reporting. This long life may show the advantages of Conservatism but the question is: "What are these advantages?" Researches done in American and European countries in recent years show a reduction in information content of net profit and a gradual increase of Conservatism degree used in financial reporting. But the results of different researches about the effect of conservative financial reporting on information content of accounting numbers, do not accord with each other. Some state that a conservative financial reporting increases information content of accounting figures and some other believe that Conservatism endangers qualitative characteristics of accounting information. The use of Conservatism characteristics is completely observable in Iranian accounting standards. According to these standards the probability of future economic advantages' flow related to the transactions within a business unit is the main requirement of income recognition; thus, we should not try to recognize cash flows until making sure of the income's approach. Meanwhile, if a business unit incurs expenses with considerable ambiguities related to future economic benefits, those expenses should be incurred in the happening period. In other words, more tough criteria are set by standard to recognize income and assets regarding the costs and liabilities. Thus, this question arises: Is the net profit reported by companies conservative or not? Do factors such as Company's Size and Debt Contracts affect the amount of Conservatism in financial statements? Is Conservatism level different for big and small companies? The answers to these questions can help us to assess the determined standards and determine the advantages and disadvantages resulting from using Conservatism in supplying financial information.

2. LITERATUREREVIEW

Basu (1997) defines Conservatism as a requirement to have a high percentage of approval for recognizing good news such as profit against recognizing bad news such as loss. This definition describes Conservatism regarding profit and loss. But there is another definition of it posed by Feltham & Ohlson (1995) regarding the balance sheet. According to this definition when there is a real doubt in choosing from among two or more reporting methods, a method should be chosen that has the least desirable effect on owners' equity. The third definition of Conservatism

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was suggested by Givoly&Hayn (2000) based on an aggregate perspective of balance sheet and income statement. In this perspective, Conservatism is an accounting concept which results in the reduction of the reported accumulated profit through the delayed recognition of income and a more rapid recognition of expenses, and lower assessment of assets and higher assessment of liability. Another category for defining conservativeness was presented by Ryan (2006) who divides Conservatism into conditional and unconditional ones. A conditional Conservatism is the one which has been deemed to be obligatory by accounting standards. It means in time recognition of loss when there is bad and undesirable news and the lack of recognition when there is good and desirable news. For example, using the least cost principle or net value-added in assessing the inventory is a type of conditional Conservatism. This type of Conservatism is also called income statement Conservatism or past-oriented Conservatism. But unconditional Conservatism is not obligated by accepted accounting standards. This type of Conservatism is to show net assets' book value less than the real value by using the predetermined accounting trends. This type of conservativeness is known as balance sheet conservativeness or future-oriented Conservatism. Suppliers of financial statements view Conservatism as an attempt to select a method from among accepted accounting methods which results in one of the following results: slower recognition of sales' revenue, more rapid recognition of costs, less assessments of assets, or more assessments of liabilities (Shabahang, 2002, P: 54). In this research we have used the first definition to calculate Conservatism criterion and also the approach called the Book-to-Market.

Watts & Zimmerman (1987) believe that those companies which encounter higher political expenses tend to use more conservative accounting approaches. Ahmad & et al. (2002) approved their idea through showing the fact that big companies use more conservative accounting approaches compared to other companies. Also the results of their research showed that if there is a contradiction between the benefits of creditors and stockholders in profit distribution, the managers of borrower companies will probably have more tendencies to use conservatism accounting approaches. Watts (2003) believes that if companies' contracts with different groups such as investors and creditors are set based on accounting figures, the managers of those companies will try to perform biased behaviors to manipulate those figures for their own profits when there is a contradiction between the profits of managers and those groups. For example, they will increase profit or assets and reduce liabilities. Meanwhile, conservatism is an effective contraction mechanism which neutralizes the managers' biased behaviors through postponing profit and assets' recognition and in time recognition of losses and liabilities. Givoly&Hayn(2007) studied the power and reliability criterion of aggregated effects of incidents in assessing conservatism by using a time series model. The results of their researches showed that aggregated effects of incidents in bigger companies make conservatism less in their financial statements compared to smaller companies. Beatty, Webber&Yu (2008) studied the conservatism requirements embedded in debt contracts; they stated that these requirements are used when debt agency costs are higher. Meanwhile their evidences showed that contracts' requirements could not realize the demands of creditors for conservatism solely, and thus there was a need to use conservatism accounting to reduce debt agency costs. LaFond,&Roychowdhury (2008) studied the relationship between the percentage of managers' ownership and conservatism in a research paper. They considered Basu model as a conservatism criterion and thought of company's size, debt and the risk of legal claims as controlling variables. Their findings showed that there is a positive and meaningful relationship between debt ratio and conservatism. It means that by increasing debt levels the demand to use conservatism will increase. Also there is a negative and meaningful relationship between company's size and conservatism. Zhang (2008) studied the advantages of conservatism accounting for both parties in debt contracts. His findings showed that where we use conservatism accounting (the existence of some requirements for conservatism accounting in debt contracts), if borrowers violate these conditions the creditors can benefit from advantages such as prior than maturation liquidation of the debt and enforcing fines because of borrowers' violations. On the other hand, the creditors can demand a benefit of less interest rate from companies which use conservatism accounting and the borrowers will benefit from advantages such as less interest rate in payments resulting from the reduction of debt agency costs.

3. RESEARCH METHODOLOGY

There are several methods to assess Accounting Conservatism level in financial statements. Although sometimes different results are observed by these methods, they all depend on the divergent effects on returns and losses present in financial reports. This is especially true regarding profits resulted from net assets and accruals (Yaseen, 2000). Thus, this research uses two different methodologies in assessing accounting conservatism and effective factors on it. The first approach will be Basu (1997) model known by some as EarningsStock Returns Relation Measuresand the second one will be The Book-to-Market Ratio.

3-1- Society and Statistical Sample
Our statistical society involves companies Listedon the (TSE). The statistical sample in this research is determined based on a systematic elimination and regarding the following conditions:
1) Companies should have been listed on the (TSE) at least from the start of the year 2004.

2) The selected companies should not be investing or financial (banks) ones.
3) To increase comparability, the fiscal year should end at the end of Esfand (21 March).
4) Companies selected should not have changed their fiscal year during the time period between 2003- 2009.
5) Companies selected should not have stopped their transactions during the determined time period.

Regarding the above requirements, 99 companies were selected as our statistical sample during the time period between2003-2009. Data analysis and models' testing was carried out by using EXCELL and SPSS software.

3-2- Research Hypotheses

This research poses 3 hypotheses. First we wanted to Accounting Conservatism level in financial statements of companies listed on the (TSE).Other two hypotheses stud the measurement of effective factors on Accounting Conservatism level. The hypotheses are formularized as follows:

H.1 Hypothesis: There is not an acceptable Accounting Conservatism level in financial statements in companies listedon the (TSE).

H.2 Hypothesis: Statistically, the companies' size does not have a significant effect on Accounting Conservatism level in financial statements in companies listedon the (TSE).

H.3 Hypothesis: Statistically, the debtcontracts do not have a significant effect on Accounting Conservatism level in financial statements in companies listed on the(TSE).

3-3- Research Models

This research uses two different models in measuring Conservatism and factors effective on it. The first model is Basu (1997). The second model depends on the amount of Accounting Conservatism in market. This model is defined as follows:

3-3-1- BasuModel

Basu interpreted conservatism as the tendency among accountants towards obligations for a higher degree of supervising capability to recognize "Good News" from "Bad News" in financial statements in the year 1997. In this interpretation of conservatism, accounting profit reflects bad news faster than good news. He used stock return measure the amount of the lack of time symmetry in recognizing bad news from the good news as a criterion in conservative behaviors to be tested. Since this interpretation affects the relationship between profit and return, Basu used the regression relationship (1) between the profit and stock return and found out that the answer by the profit to bad news (stock negative return) is more in time than the answer by the profit to good news (stock positive return).

$$X_{i,t} / P_{i,t-1} = \alpha_0 + \alpha_1 DR_{i,t} + \beta_1(R_{i,t} \times DR_{i,t}) \tag{1}$$

$E_{i,t}$: means earnings per share of the company (i), during period (t).

$P_{i,t-1}$share price of the company (i), at the beginning of period (t) or closure of the year (t-1).

D_{it}: Dummy variable which equals (1) if ($R_{i,t}$) is less than zero (net loss) and (0) if ($R_{i,t}$) is more than zero (netprofit)

$R_{i,t}$: Returns (net income) of the company (i) during period (t)., which is defined as the price difference of each share of a company at the end of the period and the price of each share at the start of the period in addition to adjustments resulted from stock revenues including dividends, reward stocks and …, divided by the price of each share at the start of the period.

In this research, the return calculation period is 12 months ended at the end of Tir (21 July) of each year. In regression relationship (1), b_2 measures the answer by the profit for positive returns and $b_2 +b_3$ measures the answer by the profit for negative returns. Conservatism shows that $b_2 +b_3 > b_2$, that is $b_3>0$. Basu called b_3, Earning asymmetry coefficient. Thus, the lack of time symmetry criterion in recognizing gains and losses was introduced as a conservatism criterion.

3-3-2- Using BasuModel to Assess First Hypothesis: Accounting Conservatism Level

This model is used to study the first hypothesis in which our aim is to measure accounting Conservatism level in Iranian companies. If the R–squared is higher regarding the negative return ($R_{i,t}< 0$) whichrepresents bad news – expected loss– than the positive return ($R_{i,t}> 0$) which represents good news, then the earningsare more in concurrence with bad news. Thus, profits are more in accordance with bad news (Sahli, 2009). Finally financial reports are mostly conservative and profits will be more sensitive towards bad news compared to good news. Thus, the amount of β will be higher for negative profits compared to positive profits (Basu, 1997). The presence of a suitable level of accounting conservatism means that the variable ($R_{i,t} \times DR_{i,t}$) will be statistically important in the model of Basu (1997).

3-3-3- Using BasuModel to Assess Second Hypothesis: the Effect of Company's Size on Accounting Conservatism Level

Company's size and Conservatism

For at least 3 reasons we expect a relationship between a company's size and conservatism:

- The hypothesis of Political costs

- The hypothesis of aggregate effects of incidents (news)
- The hypothesis of disclosing (or information asymmetry)

Political costs' hypothesis predicts that bigger companies report profits more conservatively while aggregate effects and information asymmetry express that there would be less conservatism in profits reported by bigger companies.

PoliticalCosts: Watts & Zimmerman (1986) have remarked that authorities tend to move wealth from companies to themselves or other beneficiaries. These ideas are realized in the form of obliging some companies to pay money for social issues (contamination, earthquakes, war and …), imposing higher tax rates, or depriving them from some advantages or rights. The imposed costs to companies is a function of their size because smaller companies are noticed less and thus they encounter less political movement of wealth; thus big companies that encounter political pressures have more tendencies to use net profit reduction approaches and as a result they have conservatism accounting.

Aggregate Effects of Incidents (news): the fundamental concept of time asymmetry criterion in recognizing the profits and losses is that we can calculate the amount of conservatism by the difference between individual bad news compared with good news on the current profit; meanwhile, it is impossible to observe all incidents and their economic effects on profit individually. The thing that is observable is the period's aggregate profit and aggregate effects of the period's incidents on it. Also the aggregate effects of incidents are measured by stocks' aggregate return in a period. Givoly&Hayn, (2000) showed that the aggregate effect of incidents (news) on the return is less than the sum of their individual effects; because the more news will result in neutralizing the effects of good news by bad news. On the other hand, usually the happening flow of incidents in activities of big companies has a more sequential and wearisome trend than the activity environments of small companies. This will enable yields in big companies to be affected less by a certain incident's happening (spread of good or bad news) while the return in small companies is usually dependent on one or some main incidents. Thus, conservatism measured through time asymmetry criterion will be less in big companies compared to small companies.

Information Asymmetry (Disclosing): information Asymmetry is a condition in which states and choices of decision making for both parties in a contract are not the same and clear and thus no certain outcomes are considered by a party. Individuals' information asymmetry within a company (such as managers) and external investors create the demand for conservatism; because conservatism reduces the motives and capabilities of managers to manipulate accounting figures and this causes a reduction in information asymmetry and losses caused by it. The more information asymmetry among individuals within a company and external investors will create more demands for conservatism. Since in big companies there is a voluntarily or obligatory effort to produce and present more general information than the small companies and the news related to their activities is more broadly accessed by the public, we can observe less information asymmetry there; and this will cause a reduction in demanding for conservatism among them.

The aim of the second hypothesis is to measure the effect of companies' size on the conservatism levels. In other words, this hypothesis tries to achieve some evidences to identify whether big companies are more conservative than the small companies or not. Also this hypothesis tries to identify how Basu model (1997) is used in assessing the effect of companies' size on conservatism level. The average amount of the total assets of companies is chosen to measure companies' size. According to the previous studies if the total asset of a company is more than the total average, the company is considered to be a big one and if it is less than the total average, it is considered to be a small company in this paper. To assess the conservatism amount of every company, $(R_{i,t} \times DR_{i,t})$ of it should be statistically significant. To measure big companies compared to small companies regarding their conservatism levels, Adjusted R–squared for the models used should be compared with each other. Thus a company which has a higher R^2 coefficient will have a higher conservatism level.

3-3-4- UusingBasuModel in Assessing the Third Hypothesis: the Effect of Debt Contractions on Accounting Conservatism

Debtandconservatism: Watts (1986) states in a paper about conservatism in accounting that since the creditors are more attracted by undesirable risks compared with desirable performance potential of a company, debtcontractions are one of the most important factors in demanding conservatism. The creditors are interested to be informed about the amount of probable coverage of their money claims through net assets and companies' liquidities in the future. There are two alternative theories about the relationship between debtcontractions and accounting approaches' selection. The first theory which is a traditional one states that managers tend to select aggressive (non-conservative) accounting approaches. The reason is that usually debtcontracts entail predetermined conditions related to accounting variables (for example, the least debtdetermined) whose violation will impose costs for the company. Profit raising accounting approaches is useful to avoid the violation of these conditions. The second alternate theory states that managers can use non-conservative accounting to increase profit and try to show that the company is less at risk by the creditors and this can result in creditors' expected interest rate reduction and reduce contraction costs. Zimmerman (1996) showed that debtcontracts determine certain conservative accounting approaches and

management is limited in changing accounting approaches intentionally through this. In other words, debtcontracts are one of the factors fostering the demand for conservative accounting.

Several previous studies have investigated the effects of debtcontracts on accounting conservatism levels in financial reports. Also they have determined whether debtcontracts can force companies to encounter a higher level of conservatism in their financial reports or not. Regarding the use of Basu model in measuring the effects of debtcontracts on conservatism levels, this research will use financial leverage for 99 companies during the time period between 2004 and 2010. Companies' financial leverage is calculated by dividing the total liabilities to owners' equity. After that we calculate financial leverage average for all companies. According to the previous studies if the average total leverage of a company is more than the total financial leverage of the companies, the debtof this company is more than those companies with less average. After categorizing the sample companies regarding the debtsize, Basu model (1997) was used to assess the categorization of the whole companies remembering the previously approved decision makings.

3-3-5- Book-to-Market Approach to Assess Accounting ConservatismLevel
On the contrary to Basu model, most studies refer to book-to-Market (BTM) approach as a conservatism criterion. The theoretical framework of this approach was developed by Beaver& Ryan (2000) and it was used in some other studies to assess the utilized conservatism such as: Ahmed &Duellman, 2007; Lanfond&Royohwdhury, 2007; Jain &Rezaee, 2004; Ahmed & et al., 2002; Gvoly&Hayn., 2000. Book to market value ratio is used to compare the stock's value with market value. The book value is gotten throughdividing (total equity deducted from outstanding shares) on the average weighted of the number of outstandingshares. The market value is the closing price of the share at the end of the year.

The first hypothesis which is considered along with the use of Book-to-Market Approach will be gotten through considering the differencebetween the book and market values using the Parametric Independent Sample t-test and Non-ParametricMann-Whitney test. If the parameter of this test was negative with a statistical significance, book value is considered to be less than market value during the period. Also this means the biased use of accounting approaches which result in slower recognition of revenues and more rapid recognition of costs. Beaver & Ryan (2005), and Jain &Rezaee (2004) showed that the reduction of the ratio of book value to less than one compared to the market value will mean there is a reasonable accounting conservatism level in financial reports.

3-3-6- Assessing Effective Factors on the Degree of Accounting Conservatism by Using Book- to-Market Approaches
The second method of assessing the effective factors on the accounting conservatism levels is done through assessing the size regression, debtand growth compared with Book-to-Market value as a dependent variable.

$$BTM_{i,t} = \beta_0 + \beta_1 Size_{i,t} + \beta_2 Leverage_{it} + \varepsilon_{i,t}$$

Where:
$BTM_{i,t}$: (dependent variable): Book-to-Market ratio as an indicator of the level of accounting conservatism ofcompany (i) in the year (t).
β_0: Constant value
$\beta_{1,2,3}$: independent variables' amounts slope
$Size_{i,t}$: the first independent variable which is calculated as a natural log of total assets in the year t.
$Leverage_{it}$: the second independent variable, financial leverage (total liabilities/total assets) as an indicator of the size of thecompany's debt (i) (debt contracts) in the year (t).

Hypotheses Test:
After defining research variables, research models were tested. In this research, the two approaches of Basu mode (1997) and Book-to-Market ratio were investigated. First the presuppositions related to Basu mode and then the presuppositions of book value to market value ratio were analyzed.
4-1- Testing the First Hypothesis: in this study, the measurement of conservatism levels in accounting was carried out by using Basumodel (1997). To make sure of Book-to-Market approach, we used testing the first hypothesis. The results of testing the first hypothesis are shown in table 1 (A and B panels).

4-1-1- Using BasuModel to Assess ConservatismLevel
The test of the existence of conservatisms in financial statements of companies listed on the (TSE) was investigated through profits which showed bad news (negative yields). This means that the variable $(R_{i,t} \times DR_{i,t})$ should be statistically significant in Basumodel. The findings in table 1 showed that the variable $(R_{i,t})$ is not statistically significant in the model. (P-value < 0.05) means that the net profits of companies are affected by their stocks' price. Thus, accounting information play an important role in Tehran Stock Exchange. We can conclude the first hypothesis by saying that financial statements of companies listed on the (TSE) are not conservative; thus we can modify our null hypothesis as: $(H_0: \beta_2=0)$ and H_1 will be $(H_1: \beta_2 \neq 0)$. The βrelated to the variable $(R_{i,t}*DR_{i,t})$ is statistically significant

because (P-value < 0.05). Thus, null hypothesis is rejected and accept the alternative one instead. Thus, we might say that thefinancial statements issued by the companies listed on the (TSE) are conservative.

4-1-2- Assessing Accounting Conservativeness by Using BTM Approach

The market value of assets and promises involves the net changes of assets in every period but these changes are not reflected in accounts and financial reports. In conservatism accounting, the increase of assets (profit) which do not have a high capability to be controlled is not recorded; meanwhile, reductions with the same capability to be controlled are recorded. Thus, net assets are reported less than the real market value.

Ahmed &Duellman (2007) used Book-to-Market ratio and multiplied it by the number (-1) as the conservatism criterion. Since usually conservatism results in showing the book value of owners' equity less than the real one regarding the market value, companies which use more conservative accounting have a less Book-to-Market ratio. In other words, the relationship between Book-to-Market ratio and conservatism is reversed and if we multiply it with the number (-1) we would gain a direct conservatism amount.

The second approach in assessing conservatism levels in financial statements of companies listed on the (TSE) is Book-to-Market ratio. The existence of a reasonable level of accounting conservatism means that the book value should be less than the market value during the study period. This shows that certain accounting policies have been utilized and they are used in admitting loss and lower values of the assets. Finally the company will have an assessment less than its real value which can also have a higher than the market assessment regarding the following formula: (BV-MV<0). Testing the H_0 hypothesis showed that there is not a reasonable level of accounting conservatism in financial reports and it will be expressed in the following formula: (H_0: BV-MV≥0). This contradicts with H_1 in which there is a reasonable level of accounting conservatism in financial reports. The book value is less than the market value and this accords with H_1 (H_1: BV-MV<0). In testing this hypothesis two tests were used: parametric and non-parametric tests. The principle rule of having a reasonable level of conservatism states that the result of this test should be negative and statistical. Table 3 shows that t-student statistics (parametric statistics) is negative and meaningful. Also Z- student statistics (non-parametric statistics) of Mann-Whitneytest showed a negative and significance relationship in two Significant levels of %5 and %1. This means that the parametric and non-parametric test results reinforce each other in the approach ofBTM. Also it shows that there is a reasonable conservatism level in financial reports of companies listed on the (TSE). The results of this approach reinforce the evidences gained from Basu model.

Table1: Testing of the first hypothesis.

Panel A: Measurement of Accounting Conservatism Using Basu Model				
Variables	**Coefficient**	**Std. Error**	**t-statistic**	**P-value**
Constant	.132	.013	10.247	.000
$DR_{i,t}$	.060	.019	3.167	.002
$R_{i,t}$	.070	.005	13.006	.000
$R_{i,t} \times DR_{i,t}$	.104	.040	2.640	.008
R-Square Adjusted	.261			
Durbin-Watson stat	1.841			
F-value	81.284			
Prob(statistic)	.000			
Panel B: Measurement of Accounting Conservatism Using BTM				
Parametric Test: Independent Sample t-Test		Non-Parametric Test: Mann-Whitney Test		
t-Statistic	p-value	Z-Statistic		p-value
-6.948	.000	-8.597		.000
Book Value	Book Market	BTM Ratio		
2173.26	5670.93	2.7078		

4-2- Testing Second Hypothesis: the second hypothesis is related to the study of the effects of a company's size on conservatism levels in financial statements. This hypothesis has been investigated by using two distinct approaches. First Basu model has been used and then the company size regression was measured by using Book-to-Market ratio. To study the effect of companies' sizes on conservatism levels by using Basu model, companies were divided into two groups of big and small companies regarding the amounts of their assets. The results are shown in table 2. Table 2 shows that the variable ($R_{i,t} \times DR_{i,t}$) in small companies' model is not statistically significant. This shows the presence of a low level conservatism in small companies on the (TSE). This perspective shows that small companies are not conservative in presenting financial reports in order to avoid political costs, governmental consciousness level, financial analysts and high controlling levels of corporate governance. Also the results of big companies are shown in the second part. This section shows that the variable ($R_{i,t} \times DR_{i,t}$) in big companies' model is not statistically significant. This reflects the presence of a reasonable level of accounting conservatism in big companies unlike small companies. Thus, H_1 hypothesis is accepted while H_0 is rejected. Generally when financial statements are supplied the company size affects accounting conservatism levels. Big companies are more conservative than small companies. This shows

that adjusted (R^2) in big companies' model is higher than small companies. Regarding the results of testing the effects of companies' sizes on conservatism levels in company size regression model, the Book-to-Market ratio has been assessed. Regarding table 4, the size variable (β_1) has been positive which shows that there is a reverse relationship between conservatism levels and a company's size. This variable is significant in the levels of %5 and %1. Finally, we can claim that a company's size is effective on conservatism levels. The results through the use of Book-to-Market approach accord with those of Basu model. Thus, big companies are more conservatively than small companies.

Table2. Estimating of Basu Model

The Effect of Firm Size on Accounting Conservatism Using Basu Model						
Variable	Small Companies (n=47)			Big Companies (n=52)		
	Coefficient	t-Statistic	p-value	Coefficient	t-Statistic	p-value
Constant	.112	6.369	.000	.173	9.333	.000
$DR_{i,t}$	.063	2.363	.019	.041	1.540	.125
$R_{i,t}$	.077	10.396	.000	.059	7.996	.000
$R_{i,t} \times DR_{i,t}$	.060	.982	.327	.148	2.957	.003
Adjusted R-Square	.267			.283		
Durbin-Watson stat	1.890			1.964		
F-value	46.109			41.320		
Prob(statistic)	.000			.000		

4-3- Testing the Third Hypothesis: in third hypothesis, we studied the effects of debt contracts on conservatism levels and tried to answer this question: "Do companies with high amounts of debtsare more conservatively or not?" In table 3 we can observe that companies with more financial leverages are conservatively regarding their financial statements. Also the variable ($R_{i,t} \times DR_{i,t}$) showed that it is statistically significant. It seems that companies with high amounts of debts are more conservatively and the Adjust R^2 is more in these companies compared with those with a less liability debt. To make sure of the effects of debts on conservatism levels, financial leverage's regression is assessed based on book value to market value approaches. Regarding table 4 we observed that the variable β_2 related to financial leverage was negative. These evidences show that there is a positive relationship between conservatism levels and the debt amounts of the companies. Thus, the variable is significant in statistical levels of %5 and %1. Thus, debt contracts affect conservatism levels. Also companies with high debt amounts are more conservatively. The results gained through the use of Book-to-Market approaches accorded with those observed in Basu model. Thus, regarding our observations, null hypothesisis rejected and accepted the alternative hypothesis instead. A company's debt amount (company's contracts) affects conservatism levels in these companies. Thus, financial statements of companies with high amounts of debts are more conservative.

Table3. Estimating of Basu Model

The Effect of Debt on Accounting Conservatism Using BasuModel						
Variable	Low Financial Leverage (n=45)			High Financial Leverage (n=54)		
	Coefficient	t-Statistic	p-value	Coefficient	t-Statistic	p-value
Constant	.157	10.055	.000	.113	5.545	.000
$DR_{i,t}$	.048	2.123	.035	.063	2.095	.036
$R_{i,t}$	.069	11.703	.000	.067	7.204	.000
$R_{i,t} \times DR_{i,t}$	.074	1.535	.126	.120	1.995	.048
Adjusted R-Square	.344			.372		
Durbin-Watson stat	1.908			1.886		
F-value	65.827			25.919		
Prob(statistic)	.000			.000		

Table 4. Estimating of Second Model

Variable	Coefficient	t-Statistic	p-value
Constant (α)	.526	2.876	.004
Company size	.118	3.849	.000
Financial leverage	-.759	-6.864	.000
Adjusted R-Square		.105	

Conclusions

Our aim in this research was to measure Accounting Conservatism levels in financial statements of companies listed on the (TSE). The results of our research accord with those of Jordanian companies. To achieve the goals of our research two approaches (Basu model (1997); and Book-to-Market ratio) were studied to measure conservatism and its effective factors on Iranian companies. We studied conservatism levels in financial statements of all Iranian companies

during the years between 2004 and 2010 by using Basu model (1997). The results showed that financial statements of companies listed on the (TSE) were conservative. Also we used Book-to-Market ratio for testing accounting conservatism in financial reports to reinforce these results. In this research we used parametric and non-parametric statistics to test the hypotheses. Parametric and non-parametric tests approved the results of Basu model (1997) and determined that financial statements of companies listed on the (TSE) have a reasonable level of conservatism. Also the results of our research were different from the results in the previous same environment (Hamedan, 2010). They revealed that financial reports of Jordanian companies are never conservative. Also Al-Sahli's, (2009) showed that Arab companies are never conservative in preparing the financial results. After assessing conservatism levels among all Iranian companies, we studied the effective factors on conservatism levels. To do so, we considered two factors: company's size and debt contracts. To assess the effects of such results, we used Basu model and Book-to-Market approaches. Then we divided companies into two groups of big and small companies regarding their amounts of assets. Also we utilized Basu model for big and small companies. The results showed that a company's size affects conservatism levels. It means that financial statements of big companies are more conservative than those of small companies. Also companies with higher leverages are more conservative than small companies.

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