

# Review of Accounting Conservatism, Real Earnings Management and Thai Stock Exchange

Phimpaka Jaimuk<sup>1</sup>, Napaporn Nilapornkul<sup>2</sup>, Sungworn Ngudgratoke<sup>3</sup>

<sup>1</sup>Faculty of Business Administration, Rajamangala University of Technology Thanyaburi, T.KlongHok,  
ThanyaburiPathumThani, Thailand

<sup>2</sup>Department of Accounting and Finance, Faculty of Business Administration, Rajamangala University of Technology  
Thanyaburi, T.KlongHok, ThanyaburiPathumThani, Thailand

<sup>3</sup>Department of Education, SukhothaiThammathirat Open University Nonthaburi, SukhothaiThammathirat Open  
University Muang Thong Thani, Chaengwattana Rd., Bangpood, PakkretNonthaburi, Thailand

<sup>1</sup>phimpaka\_j@mail.rmutt.ac.th, <sup>2</sup>napaporn\_n@rmutt.ac.th, <sup>3</sup>Sungworn@hotmail.com

## Article Info

Volume 82

Page Number: 13571 - 13575

Publication Issue:

January-February 2020

## Abstract

This study reviewed accounting conservatism, real earning management and The stock exchange of Thailand. Literature review showed that accounting conservatism can be classified into two types: conditional and unconditional conservatism. Conditional conservatism focused on the timing of financial reporting depending on bad news and good news of a company, while unconditional conservatism examined the different of accounting profits and operating cash flow. Real earning management is a measure of the level of abnormal cash flow of a firm. The measure of real earning management consisted of the level of abnormal cash flow from three activities: Production, discretionary expenses and operating cash flow. This study will conduct the research about the unconditional accounting conservatism and real earning management of Thai listed companies for 2016 – 2018. Certainly, Pearson correlation will be employed for data analysis in the future.

## Article History

Article Received: 18 May 2019

Revised: 14 July 2019

Accepted: 22 December 2019

Publication: 24 February 2020

**Index Terms:** Board Director Characteristic, Accounting Conservatism on Real Earnings Management

## I. INTRODUCTION

"Among bookkeeping scholastic, they likewise gathers in bookkeeping conservatism, is one of the four bookkeeping shows. These are benchmarks, customs or rules in regards to the utilization of bookkeeping rules. Essentially, the conservatism guideline can be grouped into 2 kinds: genuine and contingent bookkeeping conservatism. Besides, the connection between bookkeeping conservatism and genuine procuring the executives has been a well known issue among partners. Hence, numerous scientists has analyzed about bookkeeping conservatism both contingent and unqualified conservatism. For instance, Givoly and Hayn (2000), Krishnan and Visvanthan (2008) and Zhang and Wang (2013) inspected genuine conservatism in their examinations and found that unequivocal bookkeeping conservatism is profoundly connected with the genuine income the board. In any case, genuine winning administration is A mainstream issue for buyers and partners for controlling officials advisory agencies or keeping directors from hiding records through real profits the board, as an instance, the pattern of profits development and blessings the executives to control on the development of

the business. (McNichols and Stubben, 2008).

As some distance as go back, Ajinkya and Gift (1984) inspected the stock returns utilising reference statistics or present day writing widespread to the practicality of uplifting information and lousy news inside the ongoing time body, like McNichols (1988). They determined that the database for the maximum part focused across the huge length of the organisation. In addition, inventory returns had been reacted to the choice from supervisors (Ahmed, Billings, Morton, and Harris (2002), the vulnerability, and conservatism of business features inside the money associated reviews below the questionable economy of the partners, had monetary favorable instances (Ball and Shivakumar, 2005). Under the vulnerability of conservatism to stay far from the circumstance, its intention become to make the unwavering best to the monetary precis so the consumer should choose a choice under the vulnerability. Consequently, conservatism was the subjective trademark dependent on bookkeeping speculation. Basu (1997), a widely known scientist concentrating contingent bookkeeping conservatism, tested the degree of conservatism and expressed that conservatism triggered the imbalance of affect of right and terrible news in gain and misfortune rationalization. Great

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administration and company management are good sized angles for recorded businesses on the inventory change promote it internationally. Likewise, Thailand urges recorded companies to utilize first rate management. Numerous analysts have directed severa examinations by means of using administration instruments to take a position authentic gaining the board and bookkeeping conservatism. A great studies question of this investigation is the relationship between bookkeeping conservatism and proper prevailing administration of recorded organizations in Thailand. Accordingly, analysts imply to direct the exploration to look at the connection between bookkeeping conservatism and proper triumphing management of recorded organizations in Thailand. In the principle degree, we need to audit writing as bookkeeping speculations, conservatism, authentic obtaining the board and the inventory alternate of Thailand. Gathering facts can be the subsequent level ultimately ruin down information and cease may be the closing degree for us. In this paper, analysts exhibited just" writing survey, which a large level for us to analyze and engineered statistics to make the middleman of ward variable and loose factors.

## II. LITERATURE REVIEW

To react to the examination query, inquire about structure for the research changed into appeared in determine 1 below.

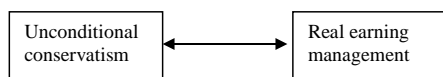


Figure 1: A research framework

Figure 1 presents the research framework

The section present 4 main topics: Agency theory, accounting conservatism, real earning management and Thai stock exchange of Thailand (SET).

### 1. The Agency theory

An crucial factor associated with both conservatism and actual incomes manage is executive committee or the agent of the corporations. We can not deny the agency idea Jensen and Meckling (1976), which associated with the conflicts of economics concept of corporations (or can be known as maximum vital) and executive boards (or can be called agent). The aim of the agent could on choice authority of the firm, and the main expects that the agent of creating maximum for the firm. Large shareholders can managers because they have got greater get entry to to records and consequently have extra understanding of decision making (Shleifer&Vishny, 1986).

### 2 Accounting Conservatism

As to bookkeeping rule, the conventional meaning of bookkeeping conservatism might be abridged in the aphorism "accept no benefits, anyway anticipate all misfortunes" (Bliss, 1924). Be that as it may, bookkeeping conservatism as a component for directors to exploit to check reasonable data as benefits should be in preferred degree over the least complex of terrible data as misfortunes (Basu, 1997). The rough cure of pay and misfortunes brings about underestimate net things inside the contemporary money related revealing

interims. Agency hassle and moral hazard carry for the control and into financial reporting with out the constraints. Managers do now not neutrally reveal the accounting facts under the requirements of accounting guidelines and laws. However, Basu's examine has been famous amongst researchers. Beaver and Ryan (2005) summarized that there are kinds of accounting conservatism: unconditional and conditional conservatism.

Conditional conservatism is described as a demand for recognizing precise news (earnings) than horrific facts (loss) (Basu 1997) as above. The choppy timeliness amongst a specific the type of data outcomes in the chance of managers to pick timing for file financial announcement to reveal a exquisite performance or amplify the timing of financial reporting. Kim and Pevzner (2010) said that the conditional conservatism related to a lower possibility of horrible records, which the inventory exchange marketplace reacts sensitively greater than to a splendid records. Many academic literature in conjunction with Liu and Elayan (2015) and Lafond and Watts (2008) additionally supported the implementation of conditional conservatism can mitigate the facts asymmetry amongst buyers.

Unconditional conservatism way that the diagnosed e-book values of the net property are similar to their anticipated market values. Thus unconditional conservatism is the accounting way to determine of the inception of property and liabilities yield expected unrecorded goodwill. In Comparison amongst conditional conservatism and unconditional conservatism, we discovered that conditional conservatism reacts asymmetrically to lousy information and to correctly information; whilst, unconditional conservatism has no connection of news in stark contrast. Many researchers hired unconditional conservatism of their studies which consist of Ahmed et al. (2002), Beatty et al. (2007), Zhang (2008), Watts (2003) and Ball and Shivakumar (2005). However, we centered on Givoly and Hayn' take a look at (2000). They employed the commonplace rate of the timeliness of information suitable as a degree of caution in affecting the timeliness of statistics disclosure. They said that unconditional accounting conservatism can be horrible/ super counting on the difference amongst accounting income and coins go with the float from operations. This take a look at employed the proxy of unconditional accounting conservatism similar to Givoly and Hayn (2000) as under.

$$\text{CON-ACC} = - \frac{\text{Net profits}_t - \text{operating cash flow}_t}{\text{Total assets}_{t-1}}$$

Note: t means the period and t-1 means the previous period.

### 3. Real incomes control

There are numerous definitions of real incomes control. Schipper (1989) described actual earning manage as an opportunity that may be completed with the useful resource of changing the timing of spending in investing to control the stated earnings. Roychowdhury (2006) described actual earning control that the gaps of overall performance from everyday operational practices, counting on the belief that superb monetary reporting goals had been met inside the ordinary direction of operations. According to Gunny (2010),

actual incomes control refers to managing the everyday working sports of businesses to adjust income in keeping with managers' goals. Xu et al. (2007) provided a concise definition that actual incomes manage have become a deviation from normal operational sports activities to have an impact on stated income. Abad, Cutillas-Gomariz, Sánchez-ballesta and Yague (2016) documented that actual incomes control was definitely associated with the extent of records asymmetry in Spanish indexed corporations, which recommend that real incomes manage garbles the marketplace. The literature suggests that real earning manage affect businesses in certainly one of a kind aspects due to the actual financial role and financial overall performance (Sellami, 2015). Real earning manage is taken into consideration a sign of worse monetary overall performance within the destiny (Cohen & Zarowin, 2010; Gunny, 2005; Tabassum, Kaleem, & Nazir, 2015)

There are many methods to measure real earning management. However, researchers interested in the study of Cohen and Zarowin, (2010), which stated that the real earning management included the abnormal level of cash flows from 3 activities: production, discretionary expense and operating cash flows. Their measure the abnormal cash flows models from 3 activities have been quite popular among scholar. The details of each model are present below.

#### The abnormal level of cash flows from operating

$$\frac{PRD_{i,t}}{TA_{i,t-1}} = \frac{a_1}{TA_{i,t-1}} + a_2 \frac{Sal_{i,t}}{TA_{i,t-1}} + a_3 \frac{\Delta Sal_{i,t}}{TA_{i,t-1}} + a_4 \frac{\Delta Sal_{i,t-1}}{TA_{i,t-1}} + \mu_{i,t}$$

Note: i means the company, t means year, t-1 means the previous year, PRD represents the total production costs, TA represents the total assets. Sal means total sales, ΔSal means the change of total sale and μ represents the abnormal production costs (REMPRD) due to real earning management in over production. μ represents the abnormal production costs (REMPRD) due to real earning management in over production.

#### The abnormal level of cash flows from discretionary expenses

The discretionary expenses means the business activities costs that are not directly related to operational activities. They can be reduced or removed without halting the business transaction for a short period. Thus, they are non-essential or unnecessary costs that the business does not need in order for business operation. The abnormal level of cash flows from discretionary expenses (will be called REMDEX thereafter) is the residual value from this regression model (2).

$$\frac{DEX_{i,t}}{TA_{i,t-1}} = \frac{a_1}{TA_{i,t-1}} + a_2 \frac{Sal_{i,t}}{TA_{i,t-1}} + \mu_{i,t}$$

#### The abnormal level of cash flows from operating cash flow

Operating cash flow is a measure of the amount of cash generated by a company's normal business operations. Operating cash flow can be shown in positive, which reflecting a business generate sufficient positive cash flow to maintain and grow its operations. In contrast, the negative operating cash flows, reflecting that a business may require external funds for running its business. When a company aims to increase sales, trade credits and cash discount is a mechanism to enlarge the amounts of sales revenues. All these sales promotions increase the earnings in the financial reports. However, the credit sales, credit risk and cash discount increases also. The abnormal level of cash flows from operating cash flow (will be called REMCF thereafter) is the residual value from this regression model (3).

$$\frac{CF_{i,t}}{TA_{i,t-1}} = \frac{a_1}{TA_{i,t-1}} + a_2 \frac{Sal_{i,t}}{TA_{i,t-1}} + a_3 \frac{\Delta Sal_{i,t}}{TA_{i,t-1}} + \mu_{i,t}$$

In the model, i means the firm, t represents year, t-1 means the previous year, CF means cash flow of operation, μ is the residual value that represents the abnormal cash flow of operation (REMCF) due to the real earnings management.

$$REMPXY = REMPRD - REMDEX -$$

#### 4. Stock Exchange of Thailand (SET)

The Thai capital marketplace has been formed into stages, starting with the Bangkok Stock Exchange, and accompanied with the aid of the Securities Exchange of Thailand (SET) on May 1974, which authoritatively started out replacing 1991. The substantial points are to improve protections exchanging for invigorate funding funds and collect residential capital. The Securities and Exchange Commission (SEC) gave many inventory records to serve economic experts. Every industry bunch files and section lists are likewise gives.

The Stock Exchange of Thailand (SET) turned into consolidated below the Securities Exchange of Thailand Act, B.E. 2517 (1974) for the changing of recorded protections and furthermore elevating man or woman budgetary proceeding to assist monetary first-class each family and enterprise ultimately for the nation. With admire to capital marketplace of the SET, it accommodates of the entire one referred to as SET. The different one is referred to as mai (Market for Alternative Investment). This one turned into installation and authoritatively started out responsibilities on June 21, 1999. The maipoints is to provide optional financing probabilities to creative businesses with excessive ability improvement (SET, 2019).

The missions of SET collecting are 5 massive angles: (1) To case and create financial stage for each imaginative and open to our partners locally, provincially, and universally; (2) To enhance item advancement for supportability of future improvement; (three) To assist and guarantee that Thai

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individuals will be quality outfitted with enterprise skills and expert uprightness; (four) To proceed because the exceptional colleagues and social supporters, and (five) To ceaselessly making, sharing, and producing information (SET, 2019).

In 2019, The SET gathering recorded several value devices, as an example, normal shares, favored stocks warrant, subsidiary warrant (DW), depositary receipt (DR), change exchanged save (ETF), land hypothesis consider (REIT), and basis guide (IFF) (SET, 2019).

The SET is characterized in to 8 establishments underneath: Agro and Food, Resources, Technology, Service, Industrials, Consumer Products, Property and Construction, and Financial. The all out recorded companies are 625 for the SET.

### III. END AND FURTHER STAGE

This exam displayed the main stage for analyzing the connection between unqualified bookkeeping conservatism and genuine obtaining the board of Thai recorded groups. Scientist observed 6 sizeable factors. The first is unqualified bookkeeping conservatism, which its intermediary is utilized from Givoly and Hayn's model. Genuine gaining the board is the diploma of abnormal earnings from three sizeable sports: technology, non-compulsory price and operating income. At that point, the entire of a wide variety of irregular profits reflected the mixture of uncommon income of the agency.

From there on, analysts will acquire statistics from the SET for all ventures, except Financial industry in light of its unique industry. At that factor Pearson connection can be applied to ponder the relationship amongst conservatism and the degree of abnormal income of advent (REMPRD), the degree of strange earnings of optionally available fee (REMDX), the degree of anomalous running income (REMCF) and the combination of the degree of unusual profits of employer (REMYX).

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