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Unconditional Accounting Conservatism: Evidence From Turkey*

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ABSTRACT

Conservatism is one of the important accounting principle. There are two types of accounting conservatism in the literature as unconditional and conditional. The aim of the study is to investigate the existence of unconditional accounting conservatism also known as balance sheet conservatism in fifteen Borsa Istanbul indices and individually firms listed in this indices between 2008-2017 and in sub-periods. Study employs market to book ratio to measure unconditional accounting conservatism. Findings reveals that ratio is bigger than one at changing levels in fourteen indices according to simple average and in twelve indices according to aggregate market to book ratio and in 116 firms. In other words, findings correspond the existence of unconditional accounting conservatism in indices level and firm level. Also, conservatism level changes in some indices and firms in the second sub-period.

Keywords: Accounting Conservatism, Unconditional Accounting Conservatism, Balance Sheet Conservatism, Market to Book Ratio.

Jel Classification: M40, M41.

Koşulsuz Muhasebe İhtiyatlılığı: Türkiye'den Kanıtlar

ÖZET

İhtiyatlılık önemli muhasebe ilkelerinden biridir. Literatürde koşullu ve koşulsuz olmak üzere iki tür muhasebe ihtiyatlılığı bulunmaktadır. Çalışmanın amacı 2008-2017 döneminde ve alt dönemlerde Borsa İstanbul'daki on beş endekste ve bireysel olarak firmalarda bilanço ihtiyatlılığı olarak bilinen koşulsuz muhasebe ihtiyatlılığının varlığını araştırmaktır. Çalışmada koşulsuz ihtiyatlılığı ölçmek için piyasa değeri / defter değeri oranı yöntemi kullanılmıştır. Bulgular, basit ortalama piyasa değeri / defter değeri oranına göre on dört endekste, toplam piyasa değeri / defter değeri oranına göre on iki endekste ve 116 firmada oranının birden büyük olduğunu ortaya koymuştur. Bir başka deyişle, bulgular araştırma kapsamındaki endeksler ve firmalar düzeyinde koşulsuz muhasebe ihtiyatlılığının varlığını doğrulamaktadır. Ayrıca, bazı endekslerde ve firmalarda ikinci dönemde ihtiyatlılık düzeyi değişmektedir.

Anahtar Kelimeler: Muhasebe İhtiyatlılığı, Koşulsuz Muhasebe İhtiyatlılığı, Bilanço İhtiyatlılığı, Piyasa Değeri / Defter Değeri Oranı.

JEL Sınıflandırması: M40, M41.

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1. INTRODUCTION

Accounting conservatism has been influenced accounting practices for centuries at significant level (Basu, 2005; 313, Watts, 2003). Traditional definition of accounting conservatism is “anticipate no profit but anticipate all losses” (Bliss, 1924). Basu (1997) defines accounting conservatism that earning reflects bad news more quickly than good news. There are two forms of accounting conservatism as unconditional conservatism (balance sheet conservatism, reporting conservatism) and conditional conservatism (asymmetric earning timeliness). Unconditional conservatism is related to book value of net assets, conditional conservatism is related to timeliness of recognition of incomes and expenses based on news.

Accounting policies such as amortization method, probable useful life of plant and equipment, stock inventory policies, capitalizing or expensing development expenditures, expensing advertising costs, accumulated reserves in excess of expected future costs (Ruch and Taylor, 2015:21) and similar accounting policies affect a firm’s book value. Unconditional conservatism refers systematic bias in book value (Zhang, 2000;130). According to Feltham and Ohlson (1995) a firm market value is related to accounting data results from operating and finance activities. Financial statements revealing results of these two activities are key elements to analyze a firm’s market value (Feltham and Ohlson, 1995: 690). In this framework, if the market value exceeds book value difference explained as unconditional conservatism. In other words, increasing market to book ratio refers to the more conservative accounting policies (Ahmed and Hussainey, 2017:338).

There are several studies revealed the existence of unconditional accounting conservatism, in USA, European and other countries. Study examines unconditional accounting conservatism in basic metal, chemical petrol plastic, construction, electricity, food beverage, metal products machinery, mining, non-metal mineral product, technology, telecommunication, textile leather, tourism, transportation, wholesale and retail trade, wood paper printing indices also for individual firms listed in this indices between 2008 and 2017 and in five-years sub-periods. Firstly, study investigates the existence of unconditional conservatism on different BIST indices representing sectors. Secondly, study examines unconditional accounting conservatism individually for each firm listed in this indices.

Studies generally focuses on conditional conservatism in Turkey, Thus, study contributes to literature by providing evidence about unconditional accounting conservatism in Turkey in sectoral and firm level different from prior studies. Also, this is motivation of the study.

Simple average and aggregate market to book ratio results revealed that existence of unconditional conservatism in indices level and for individual firm. In the second sub period, conservatism level changes significantly for some indices and firms.

The study proceeds as follows. After introduction section paper focuses on accounting conservatism, unconditional accounting conservatism and causes of conservatism. Section III contains literature review. Then, explained methodology of the study and developed hypothesis. Section VI presents results. Section VII concludes the study.

2. ACCOUNTING CONSERVATISM

Conservatism is a bias effecting judgement of accountants. As stated by Blair and Wallman (2001) accountants generally tends to understatement of net assets and income under effect of this bias. Some critics refers that systematically understating assets and overstating liabilities, recognizing incomes too late and expenses too early reduces importance of accounting information (Hellman, 2008; 72). In this context, conservatism may contradict neutrality and reliability of financial reports.

Financial Accounting Standarts Board (FASB) notes that historically accountants, managers has bias in direction to understatement of net assets and net income (Blair and Wallman, 2001;36). FASB defines accounting conservatism in statement of financial accounting concepts (1980):

“prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered”.

Conservatism, which is also known as prudence affects regulations such as accounting standards (Zhang, 2000:130). While in the first conceptual framework for financial reporting prudence was an important concept for reliability, International accounting standards board (IASB) removed prudence concept from revised conceptual framework in 2010 because of incosistent with neutrality (Conceptual Framework 2010, BC3.27) . But, conservatism introduced again in 2018 in revised conceptual framework which will be effective in 2020. In revised conceptual framework paragraph 2.16 states that

“Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods.”

According to Feltham and Ohlson (1995) market value is a reflection of accounting data. Evaluation of financial assets and liabilities traded in financial markets can be plain. Otherwise, evaluating of operating assets may cause difference between book value and market value because of absence of perfect markets. Beaver and Ryan (2005) states that accounting conservatism is understatement of book value of net assets relative to their market value and accountants generally tend to conservative accounting policies. Moving from this explanations definition of unconditional accounting conservatism is consistently understatement of book value of net operating assets and earnings. Existence of unconditional conservatism causes to consistently being bigger than one of market to book ratio (Lara and Mora, 2004:262).

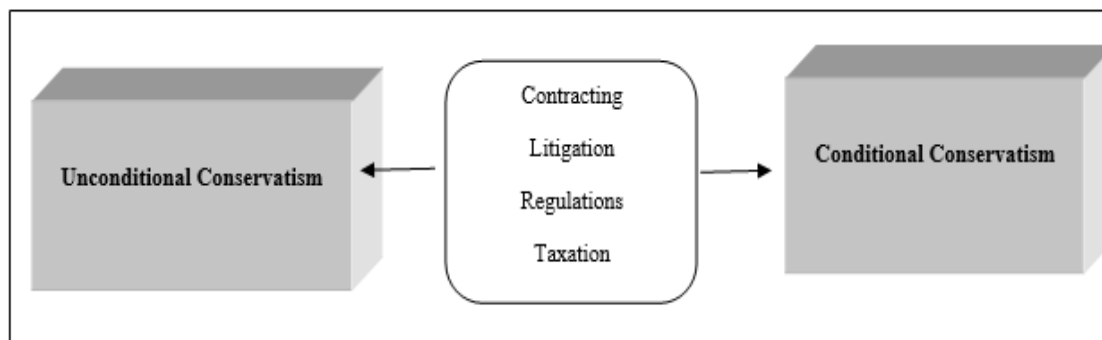


Figure 1. Factors Inducing Unconditional and Conditional Conservatism

Plenty of studies investigated the causes of conservatism. According to Watts (2003) accounting conservatism arises from contracting, litigation, taxation and accounting regulations. Watts (2003) specially underlines effect of contracting and shareholder litigation.

Contracting concept refers debt, compensation contracts and governance. Contracting provide to avoid aggressive accounting practices, optimistic behavior and biases of managers (Qiang, 2007;759, Brouwer, 2009). According to contracting debt theory creditors, according to contracting compensation theory and governance theory shareholders demand conservative accounting policies (Blunck, 2013). **Litigation** is interested in litigation costs. Firms aims to decrease contracting, litigation and regulation costs (Qiang, 2005;760) . Consequently, these factors bring conservative policies forefront. In a similar manner, firm adopt conservative policies to avoid or defer **tax** costs. Also, **Accounting Regulations** may result in conservative accounting practices such as accounting standards, legal regulations or general accepted accounting principles.

Qiang (2007) states that accounting regulations and taxation causes unconditional conservatism. While shareholder litigation induces both form of conservatism, contracting induces just conditional conservatism. By analyzing historical perspective Basu (2005) states unconditional accounting conservatism arises from tax and regulations.

Easton and Pae (2004) suggest accounting conservatism arises from accounting rules, choices, procedures and failuring to capture effect of positive net present value investments since current accounting data do not take into consider future benefits of this investments.

3. LITERATURE REVIEW

Unconditional conservatism has been subjected numerous studies. Feltham and Ohlson (1995) describes accounting conservatism or unbiased accounting comparing the market value with book value. Zhang (2000) states smaller book value than market value indicates accounting conservatism similar to Feltham and Ohlson (1995). If market value equals to book value (owner's equity) it means unbiased accounting policy. Zhang (2000) formulates unbiased policy or conservative accounting policy as below:

Conservative accounting policy

$$\lim_{n \rightarrow \infty} E [oa_{t+n}] / E [V_{t+n}] < 1$$

Unbiased accounting policy

$$\lim_{n \rightarrow \infty} E [oa_{t+n}] / E [V_{t+n}] = 1$$

oa_{t+n} : book value of firm's net operating assets (Owner's Equity)

V_{t+n} : Market Value of firm

Penman and Zhang (2002) states that unconditional conservatism causes hidden reserves. Garcia Lara and Mora (2004) revealed that balance sheet conservatism in eight European countries (United Kingdom, Germany, France, Switzerland, Netherlands, Italy, Spain, Belgium). Givoly and Hayn (2000) found that aggregate market to book ratio is bigger than one in United States between 1962 and 1998 and after first decade reporting conservatism increased consistently.

Easton and Pae (2004) find evidence accounting rules and positive net present value investments result in understatement of book value by using as proxy current market to book ratio (market value of equity minus financial assets divided by book value of operating assets). Results revealed that median ratio is bigger than one for sixteen industries and conservatism level differs between industries. Conservatism level for firms has positive return is higher. There is no difference on conservatism level for firms declared profit or loss.

Ferreira, Lara and Gonçalves (2007) investigated balance sheet conservatism comparatively in Portugal, Germany and United Kingdom markets. Findings revealed that market to book ratio is always greater than one all countries and balance sheet conservatism is less in Portugal than United Kingdom and Germany. Also, they underlined that difference will changed between countries. But, won't go away because of fair value accounting.

Qiang (2007) revealed that firms has higher contracting costs prefer conditional conservatism. When it comes to higher litigation cost firms prefer conditional and unconditional conservatism. firms bearing accounting regulation costs and to reduce tax cost choose unconditional conservatism.

Brouwer (2009) found balance sheet conservatism level differs between countries and industries. Adaptation of IFRS did not reduce level of balance sheet conservatism between European companies

Piot, Dumontier and Janin (2010) investigated conditional and unconditional conservatism and effect of IFRS adaptotion on conservatism in twenty two European countries. Findings revealed that unconditional conservatism level is higher after IFRS for firms audited by Big 4. They stated that IFRS adaptation affected negatively accounting quality.

Marzuki and Wahab (2016) provided evidence for balance sheet conservatism and conservatism level decreased after IFRS adoption in Malaysia. Ahmed and Hussainey (2017) revealed that firms adopted conservative policies and unconditional conservatism is higher before uprising in Egypt. Gonzales and Toscano (2017) stated that there is no evidence corresponding significant change on unconditional conservatism after IFRS adaptation in Spain.

Zeghal and Lahmar (2018) investigated influence of cultural factors including individualism, power distance, uncertainty avoidance, masculinity, long-term orientation, indulgence on conservatism. According to results unconditional conservatism level decreased regardless cultural factors after IFRS adoption. Just power distance dimension affected unconditional conservatism.

Shimamoto and Takeda (2018) documented that there is no significant difference on unconditional conservatism level between international financial reporting adopters and Japan general accepted accounting principle users.

4. METHODOLOGY

Research covers 10 years period between 2008 and 2017. Sample consists of firms continuous listed in Borsa Istanbul indices, which basic metal, chemical petrol plastic, construction, electricity, food beverage, metal products machinery, mining, non-metal mineral product, technology, telecommunication, textile leather, tourism, transportation, wholesale and retail trade, wood paper printing, in research period. Research includes 168 firms and 1644 firm-year observations.

Study conducted as two ways. Firstly, unconditional conservatism investigated between 2008 and 2017. Secondly research period divided into five-years two sub-periods including 2008-2012 and 2013-2017 and examined the existence of unconditional conservatism and aimed to reveal whether is there significant difference between sub-periods.

Market to book (MTB) ratio used to measure unconditional accounting conservatism, Feltham and Ohlson (1995), Zhang (2000) Givoly and Hayn (2000), Garcia Lara and Mora (2004) Zhang (2008). Negative market to book ratio values in observations excluded. To eliminate effect of excessive price movement, daily average market value of firms used. First, market to book (MTB) ratio calculated by dividing average market capitalization to year-end equity value for each firm in the sample as follow:

$$MTB (Simple Average) = \frac{MV_{i,t}}{E_{i,t}} \quad (1)$$

Givoly and Hayn (2000) states that using aggregate market to book ratio instead of simple average ratio across individual firms has advantage because of eliminate cross-sectional variances. In this context, secondly following to Givoly and Hayn (2000) also, aggregate market to book ratio used as proxy. Aggregate ratio calculated as follow:

$$MTB (Aggregate) = \frac{MV \sum_{i=1,t}^n}{E \sum_{i=1,t}^n} \quad (2)$$

$MV_{i,t}$: Stock i daily average market value in year t.

$E_{i,t}$: Stock i owner's equity value in year t.

5. HYPOTHESIS

Plenty of studies revealed the existence of unconditional conservatism. According to Feltham and Ohlson (1995) unconditional accounting conservatism systematic bias in accounting practices causes to understatement of net assets. Plenty of studies revealed that firms may employ conservative accounting policies to decrease debt costs. Shareholders demand conservative policies to restrict payments to managers. Litigation risk, taxation and regulations are other sources of conservatism. Also, several studies documented that conservatism level changes between countries, industries based on different factors such as law systems, culture differences, industry specific conditions etc. In this context, unconditional conservatism examined on indices level and for firms in Turkey following hypothesis:

H_1 : There is unconditional accounting conservatism in Turkey

First hypothesis aims to examine unconditional conservatism. Secondly, Research period divided five-years sub-periods to reveal is there any significant difference on the level of conservatism between periods. In this context, difference between sub-periods examined following hypothesis:

H_2 : Degree of balance sheet conservatism differs between sub-periods.

6. FINDINGS

Unconditional conservatism causes to understatement of assets and overstatement of liabilities. Consequently, biased practices causes to variance between market value and net book value of firms (Feltham and Ohlson 1995, Zhang (2000), Givoly and Hayn (2000). Conservatism measure of the study is market to book ratio. Table 1 shows unconditional conservatism results according to simple average market to book ratio. Market to book ratio is bigger than one for whole research period in basic metal, chemical petrol plastic, construction, electricity, food beverage, metal products machinery, mining, non-metal mineral product, technology, telecommunication, tourism, transportation wholesale and retail trade and wood paper printing indices except that textile leather index. The highest ratio, which means higher unconditional accounting conservatism as can be seen from graph 1 in wholesale and retail trade index, telecommunication and metal product machinery index follows.

Table 1. Unconditional Conservatism (Simple Average)

Panel A								
Period	Basic Metal	Chemical Petrol Plastic	Construction	Electricity	Food Beverage	Metal Products Machinery	Mining	Non-Metal Mineral Product
2008	0,89	1,21	2,10	1,05	3,43	2,23	0,95	1,27
2009	0,91	0,96	1,57	1,16	1,50	2,43	1,27	1,24
2010	1,05	1,61	1,81	2,57	2,53	3,99	2,14	2,38
2011	1,44	1,89	2,34	2,01	2,73	5,61	1,87	3,06
2012	1,36	1,81	1,58	1,53	2,25	2,40	2,66	2,43
2013	1,45	1,75	0,76	1,48	2,39	2,41	3,59	2,14
2014	1,37	1,67	1,03	1,47	2,18	2,18	1,59	1,79
2015	1,37	1,79	0,84	1,64	3,02	2,64	1,11	2,14
2016	0,93	1,80	0,52	2,53	2,31	2,62	0,72	2,00
2017	1,47	2,12	0,72	2,01	2,42	2,84	1,15	1,96
2008-2017	1,22**	1,66**	1,33**	1,74**	2,48**	2,93**	1,70**	2,04**
2008-2012	1,13**	1,50**	1,88**	1,66**	2,49**	3,33*	1,78**	2,08**
2013-2017	1,32**	1,83**	0,77**	1,82**	2,46**	2,54**	1,63*	2,01**
Difference Between Sub-Periods	-0,19	-0,33	1,11*	-0,16	0,02	0,79	0,15	0,07

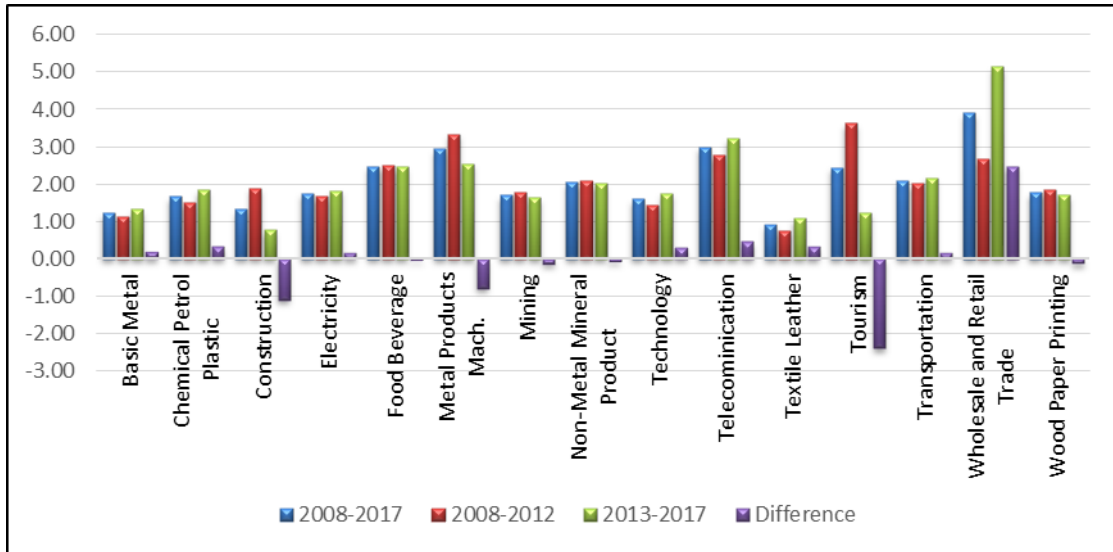
Panel B							
Period	Technology	Telecommunication	Textile Leather	Tourism	Transportation	Wholesale and Retail Trade	Wood Paper Printing
2008	1,05	2,60	0,57	1,43	0,97	2,25	3,30
2009	0,96	2,54	0,60	1,68	1,01	2,00	1,14
2010	1,88	2,71	0,81	12,07	1,97	2,99	1,72
2011	1,69	3,19	0,94	1,17	3,84	3,11	1,69
2012	1,62	2,77	0,85	1,80	2,26	3,01	1,34
2013	1,34	3,22	0,89	1,42	2,78	3,21	1,44
2014	1,48	2,52	0,82	0,86	1,84	2,94	1,61
2015	1,83	3,28	0,86	1,02	2,21	3,48	1,73
2016	2,00	3,75	1,23	1,24	2,32	5,75	1,96
2017	2,05	3,31	1,56	1,64	1,69	10,39	1,80
2008-2017	1,59**	2,99**	0,91**	2,43*	2,09**	3,91**	1,77**
2008-2012	1,44**	2,76**	0,76**	3,63	2,01*	2,67**	1,84*
2013-2017	1,74**	3,22**	1,07**	1,24**	2,17**	5,15*	1,71**
Difference Between Sub-Periods	-0,30*	-0,46*	-0,32*	2,39	-0,16	-2,48	0,13

** Significant %1 Level, * Significant %5 Level.

Between 2008 and 2012, ratio is lower than one in textile leather index. The significant highest market to book ratio, which refers to highest unconditional conservatism in telecommunication index. Results are significant except that tourism index. Between 2013

and 2017 ratio is lower than one in construction index. The highest unconditional conservatism (5,15) level in wholesale and retail trade index.

Significant results shows that while conservatism level decreases in construction index, increases in technology, telecommunication indices in the second sub-period.



Graph 1. Level of Conservatism and difference between sub-periods.

Table 2 shows aggregate market to book ratio results. Ratio is lower than one in tourism and transportation indices in addition to textile leather index. The highest unconditional conservatism level on wholesale and retail trade index.

Table 2. Unconditional Conservatism (Aggregate)

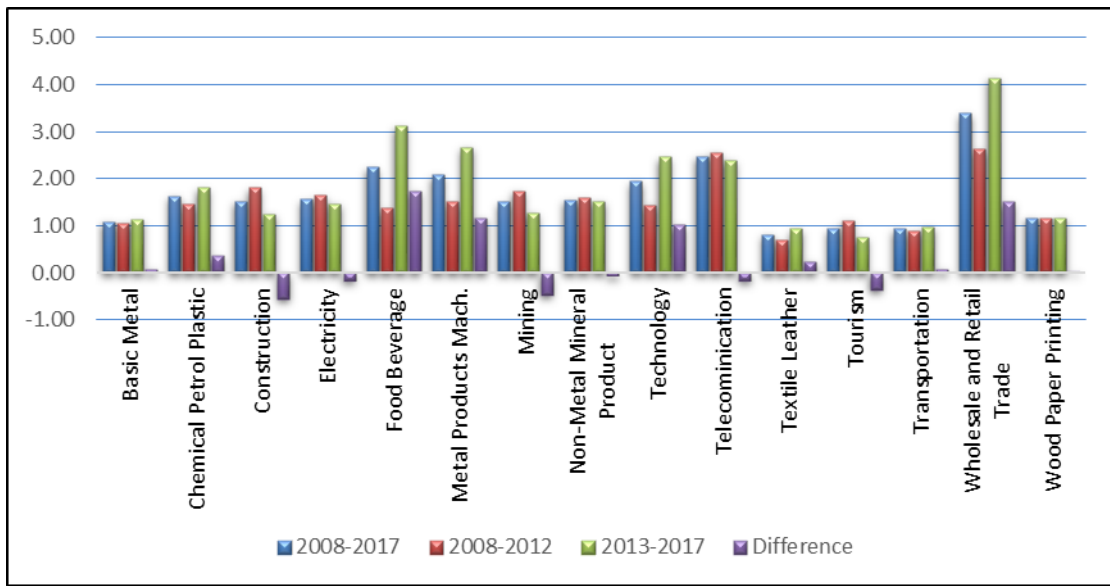
Panel A								
Period	Basic Metal	Chemical Petrol Plastic	Construction	Electricity	Food Beverage	Metal Products Machinery	Mining	Non-Metal Mineral Product
2008	1,17	1,25	2,68	0,81	1,21	1,35	0,86	1,22
2009	0,85	0,99	1,58	0,81	0,79	0,93	1,07	1,06
2010	1,07	1,57	1,93	2,61	1,06	1,60	2,41	1,77
2011	1,12	1,76	1,40	2,53	1,71	1,81	2,02	2,17
2012	1,06	1,66	1,43	1,48	2,11	1,86	2,36	1,75
2013	1,03	1,77	1,38	1,55	3,20	2,46	2,17	1,65

2014	1,27	1,63	1,62	1,50	3,22	2,38	1,13	1,45
2015	1,12	1,75	1,28	1,15	3,43	2,81	1,14	1,61
2016	0,93	1,78	0,92	1,91	3,22	2,79	0,71	1,43
2017	1,28	2,10	1,05	1,27	2,54	2,90	1,21	1,47
2008-2017	1,09**	1,63**	1,53**	1,56**	2,25**	2,09**	1,51**	1,56**
2008-2012	1,05**	1,45**	1,81**	1,65*	1,38**	1,51**	1,74*	1,59**
2013-2017	1,13**	1,80**	1,25**	1,47**	3,12**	2,67**	1,27*	1,52**
Diference Between Sub-Periods	-0,07	-0,36*	0,55	0,18	-1,74*	-1,16**	0,47	0,07

Panel B							
Period	Technology	Telecommunication	Textile Leather	Tourism	Transportation	Wholesale and Retail Trade	Wood Paper Printing
2008	0,89	2,58	0,51	1,09	0,44	1,37	1,05
2009	0,82	2,47	0,46	1,01	0,69	2,11	0,81
2010	1,58	2,60	0,73	1,30	1,40	3,29	1,42
2011	1,84	2,77	0,88	1,13	1,05	3,22	1,46
2012	2,07	2,40	0,86	1,05	0,87	3,18	1,06
2013	2,27	2,51	0,77	1,00	1,42	3,98	1,02
2014	1,67	2,10	0,79	0,52	1,15	3,72	1,08
2015	2,17	2,60	0,93	0,69	1,00	4,30	1,12
2016	2,34	2,24	0,93	0,62	0,62	4,75	1,11
2017	3,85	2,52	1,23	0,97	0,66	3,94	1,52
2008-2017	1,95**	2,48**	0,81**	0,94**	0,93**	3,39**	1,17**
2008-2012	1,44**	2,56**	0,69**	1,12**	0,89*	2,63**	1,16**
2013-2017	2,46**	2,40**	0,93**	0,76**	0,97**	4,14**	1,17**
Diference Between Sub-Periods	-1,02*	0,17	-0,24*	0,36*	-0,08	-1,50*	-0,01

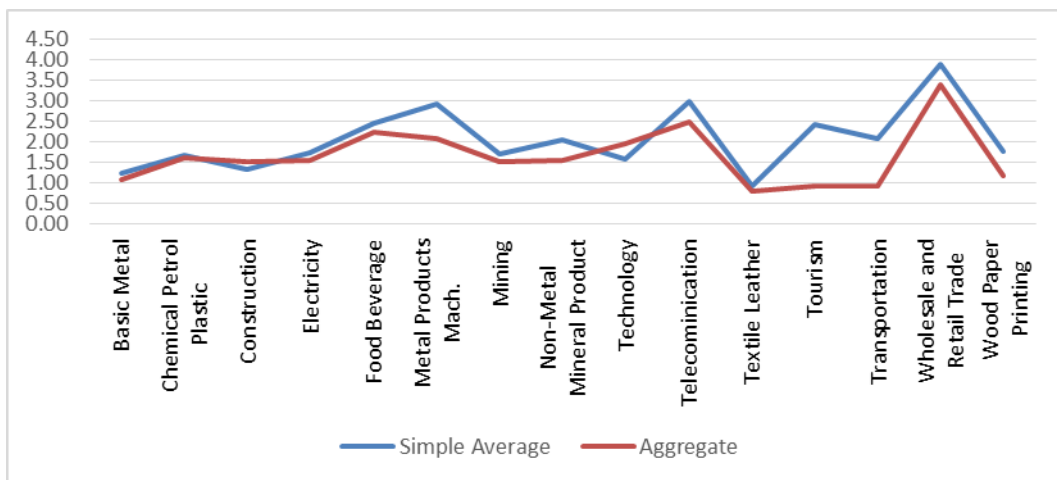
** Significant %1 Level, * Significant %5 Level

Significant results shows that conservatism level increases in chemical petrol plactic, food beverage, metal products machinery, technology, wholesale retail trade indices in the second sub-period. Conservatism level decreases in tourism index.



Graph 2. Level of Conservatism and difference between sub-periods.

Graph 3 shows simple average and aggregate market to book ratio results as comparatively. Results are generally close except that tourism index. Just, in two indices ratios above the simple average method.



Graph 3. Comparatively Simple Average and Aggregate Market To Book Ratio Results

Table 3 shows number of firms in the sample, number of firms market to book ratio is significantly bigger and less than one and number of firm significantly increasing or decreasing conservatism level between sub-periods.

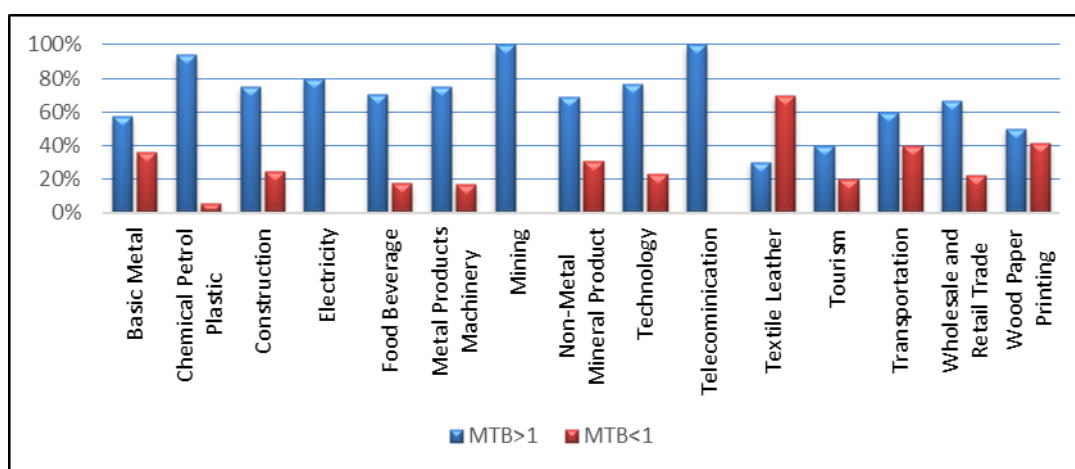
According to results market to book ratio is bigger than one for all firms in mining and telecommunication indices for all research period. As can be seen graph 4 except that textile and leather index generally number of firms market to book ratio is bigger than one. In total 69 percent of sample ratio is bigger than one. In total 32 firms conservatism level increase, 19 firm’s conservatism level decrease in the second sub-period.

Table 3. Firm Level Unconditional Conservatism

Period	Description	Basic Metal	Chemical Petrol Plastic	Construction	Electricity	Food Beverage	Metal Products Machinery	Mining	Non-Metal Mineral Product	Technology	Telecommunication	Textile Leather	Tourism	Transportation	Wholesale and Retail Trade	Wood Paper Printing
2008-2017	Sample	14	17	4	5	17	24	5	26	13	2	10	5	5	9	12
	MTB>1	8	16	3	4	12	18	5	18	10	2	3	2	3	6	6
	MTB<1	5	1	1	0	3	4	0	8	3	0	7	1	2	2	5
2008-2012	MTB>1	6	12	4	3	12	18	4	19	10	2	2	3	2	8	6
	MTB<1	7	5	0	1	3	4	0	7	3	0	8	1	2	1	5
2013-2017	MTB>1	7	17	1	4	14	17	2	18	9	2	2	2	2	6	7
	MTB<1	5	0	3	1	2	6	2	8	4	0	7	1	3	2	5
Difference Between Sub-Periods	Increase	1	7	0	1	3	8	0	5	3	1	1	0	0	1	1
	Decrease	1	1	3	0	1	4	2	4	0	0	0	1	1	0	1

** Significant %1 Level, * Significant %5 Level

Graph 4 shows percentage of firms market to book ratio is bigger than on for each sector. As can be seen from graph unconditional conservatism is dominant in firm level.



Graph 4. Percentage of Firms Conservative and Unbiased

7. CONCLUSION

Unconditional conservatism is systematic bias in direction to reduce book value of firm’s net assets independent from news. Conservative accounting practices under this bias contradict neutrality and affects reliability and quality of financial reports. Plenty of studies revealed that contracting, litigation, taxation and regulations are source of unconditional conservatism. Also, some studies documented that culturel and sectoral diferences influences level of unconditional conservatism.

Study investigates the existence of unconditional conservatism in fifteen Borsa İstanbul indices using market to book ratio as proxy between 2008 and 2017. Significant

results refer that conservative accounting policies are dominant on changing levels according to simple average. While conservatism level decreases sharply in construction index, increases in technology, telecommunication, textile leather indices in the second sub-period. According to aggregate market to book ratio results, ratio is bigger than one in twelve indices. General trend reveals that conservatism level increases but, significant results correspond this trend just for chemical petrol plastic, food beverage, metal products machinery, technology, wholesale retail trade indices. Otherwise, conservatism level decreases in tourism index in the second sub-period. Findings for individual firms refers that there is unconditional accounting conservatism in 69 percent of firms in the sample for all research period. Consequently results document that unconditional conservatism is dominant in index level and firm level.

Research period of the study contains between 2008 and 2017. It was aimed to use more wider research period but as research period increase number of firms listed in Borsa Istanbul decrease. Thus, research period and number of firms in the sample are limitations of the study. Generally researchers use market to book ratio as measure of unconditional conservatism. But, some studies states that market to book ratio is may not be enough to explain unconditional conservatism. Thus, another limitation of the study is employing market to book ratio as proxy for unconditional conservatism.

Prudence concept reintroduced to conceptual framework, which will be effective in 2020. Accounting conservatism can be investigated to examine influence of revised conceptual framework on conservatism level in the future studies.

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