The Effect of Accounting Conservatism on the Investors' Risk Taking's Behavior

(An Empirical Study)

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Abstract

Due to the changeable, continuous development and innovation that occur in our daily lives, decisions become more sophisticated and complicated especially when they are accompanied with risk and uncertain outcomes. As the level of the riskiness of the decision increases, the difficulty and procedures that are carried out increase and every step becomes of a greater importance and needs to be studied, planned and investigated carefully in details with a very high degree of awareness.

As a result of the massive importance of the accounting conservatism, the nature of information and the risk takers' behavior in the decision making process, an important issue aroused which is considered the research problem which is how investors could take high risk decisions and investments without violating or unfollowing an important and essential accounting policy which is the accounting conservatism with respect to having sufficient information to reach and make the right and optimum decisions.

Hence, as a consequence of the research problem previously mentioned, the importance of the research appears, which guides and directs to the main objective of this research which is to fill in the gap and find a relationship between nature of information, investors' risk taking's behavior and accounting conservatism, and to examine and investigate the effect of the accounting conservatism on both nature of information and investors' risk taking's behavior.

The findings were obtained after distributing two forms of surveys on a sample including one hundred investors. The objective and target of the research will be achieved from the analysis of the two surveys.

The surveys also measured the impact of the accounting conservatism on the quality of the accounting information reported in the financial statements.

The results revealed that there is a direct, positive and strong relationship between accounting conservatism and the investors' risk taking behavior.

The results showed that the investors with risk seeking behavior are the most conservative compared to investors with other risk taking behavior levels, so as the degree of dependency on the accounting conservatism increases, the investors tend to take more risky decisions and become risk seekers and vice versa, which showed that accounting conservatism increases the degree of confidence of the investors and their forecasting abilities which could result in changing the investors' risk taking behavior from one type to another. So, accounting conservatism is highly useful in the periods of economic instability and fluctuations.

The results also indicated that investors with previous knowledge of accounting conservatism are more conservative than those without, and they become more conservative as their risk taking behavior tends to be more risk seeking behavior; Females investors are more conservative than males, and that increases as the risk taking behavior level increases in both genders; Investors above 45 years old are more conservative than other age ranges, and it increases in all age ranges with risk seeking behavior; Post graduates are more conservative than undergraduates; investors with more than 20 years of experience are more conservative than others, and it increases for all experience levels with risk seeking behavior.

Keywords: Accounting conservatism, risk taking attitude, risk taking behavior, risk averse, risk neutral, risk seeking, prudent, investors, nature of information, conditional conservatism, unconditional conservatism, behavioral patterns.

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List of Abbreviations

AAA	American Accounting Association
AACF	Asymmetric-Cash-Flow-to-Accruals
ACL	Accounting Conservatism Level
AICPA	The American Institute of Certified Public Accountants
AIS	Accounting Information Systems
AT	Asymmetric Timeliness
BTM	Book To Market ratio
CEOs	Chief Executive Officer
COEC	Cost of Equity Capital
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Generally Accounting Standards Board
HEXACO	Honesty-Humility, Emotionality extraversion, Agreeableness, Conscientiousness and Openness to experience
HR	Hidden Reserves
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LIFO	Last In First Out
MENA	Middle East and North Africa region
MTB	Market To Book ratio
NA	Negative Accruals
PIN	Probability of Information- Based Trading
QR	Quantile Regression
R&D	Research and Development

RIASEC	Realistic, Investigative, Artistic, Social, Enterprising and Conventional behavioral pattern
RIVM	Residual Income Valuation Model
ROE	Return On Equity
SEC	Securities and Exchange Commission
TSE	Tehran Stock Exchange

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