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Unconditional Accounting Conservatism Effecting on Real Earnings Management of Thai Listed Companies

Napaporn Nilapornkul[1], Phimpaka Jaimuk[2]

[1] *Associate Professor, Senior lecturer in Accounting and Finance Department, Faculty of Business Administration, Rajamangala University of Technology Thanyaburi, Thailand, Corresponding author: Napaporn_n@rmutt.ac.th*

[2] *Lecturer in Accounting Department, Faculty of Management Sciences, Chandrakasem Rajabhat University Thailand, Corresponding author: pimpaka.j@chandra.ac.th*

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Abstract:
The objectives of this research were to understand the influence of unconditional accounting conservatism on real earnings management of listed companies on the Stock Exchange of Thailand, to understand the time effect of the unconditional accounting conservatism on the real earnings management, to study the factors of business characteristics affecting real earnings management of Thai listed companies and to compare the influence of unconditional accounting conservatism on real earnings management of Thai listed companies among business sectors.

The population and sample groups in the study were secondary data and collected from financial reports, including 324 listed companies on the Stock Exchange of Thailand for all business sectors. However, financial sector and companies with insufficient data were dropped from the research. The annual data were employed during 2016-2018. The statistics used in this study were descriptive statistics, Pearson's correlation and multiple regression models.

The research results revealed that the influence of unconditional accounting conservatism on real earnings management (REM_PROXY) was positively correlated with statistically significance level at .01. On the other hand, the one-year lagged of accounting conservatism was negatively correlated with a statistically significance level at .01. This reflected the reverse influence of time effect as a result of reversing accounting entries which was in accordance with the accrual basis of generally accepted accounting standards. In regard to firm characteristics in terms of firm size and firm leverage, the results showed only a statistically negative relationship of firm leverage with real earnings management. Regarding comparative study among business sectors, unconditional accounting conservatism (CON_ACC) played a key role on abnormal operating cash-flow (REM_CFO) for all business sectors. Additionally, unconditional accounting conservatism provided a significant impact on abnormal discretionary expenses (REM_DISEXP) for service sector, industrial sector and consumer products sector. Furthermore, the significant effect of unconditional accounting conservatism on abnormal production costs (REM_PROD) were found in resource sector, technology sector and consumer products sector.

Key Word: Unconditional Accounting Conservatism, Real Earnings Management, Listed Company on the Stock Exchange of Thailand

I. Introduction

Accounting conservatism is one of accounting policies, appearing in Thai Financial Reporting Standards (Thai Financial Reporting Standards (2017) (TAS 1)). The Accounting standard requires financial reports to disclose information about the entity's income which is neither overstatement nor understatement so that the financial information can be used to properly make decisions. Thus, accrual basis, such as transactions relating to accrued expenses and advance income is determined in order to reflect the income or expenses within the year. However, discretionary conservatism allows the management to exercise their discretion on earnings management. The issue relevant to exercising discretionary conservatism by the management to benefit a particular group has been studied by numerous researchers.

Watts (2003a) defined accounting conservatism as inequality in profit and loss recognition. Accounting conservatism consists of conditional conservatism, and unconditional conservatism. Conditional conservatism requires

timing of information that includes both good news and bad news presented to the public according to Basu (1997), a well-known researcher in this area. In contrast, unconditional conservatism concentrates on events that reflect the practice of accounting that regularly affect the statement. According to Givoly and Hayn (2000), accounting conservatism is an accounting practice resulting in inequality profits between financial statement and real earnings management on cash flow.

Unconditional accounting conservatism is an interesting issue. Numerous researchers, such as Demski (2004), Ewert and Wagenhofer (2005), and Graham et al. (2005) found that accrual-based earnings management had been widely applied. Alarlooq et al (2014) stated that unconditional accounting conservatism was correlated with real earnings management by exercising discretionary earnings management, real earnings management on cash flow, real earnings management on production costs, real earnings management on discretionary expenses. Jackson and Liu (2010) commented on unconditional accounting conservatism that it correlated with real earnings management. Watts (2003a) and Chen, Hemmar and Zhang (2007) stated that accounting conservatism allowed the management to exercise their discretion on earnings management. According to Ryan (2006), real earnings management could inhibit the management to apply financial policies and exercise their discretion to manage the earnings under the conditional accounting conservatism. In addition, Jaggi and Lee (2002) found that accrual-based earnings management based on the discretion exercised by the management could generate more income. Jaggi and Lee (2002) found that discretionary accruals were used to increase revenue which is in line with Wiwattanakantang (1999).

Accrual-based real earnings management is considered a tool of discretionary earnings management. There are few studies on this issue in Thailand. Thus, it is interesting to study the influence of unconditional accounting conservatism on real earnings management of companies listed on the Stock Exchange of Thailand. This study can fulfil research gap related to time effect of unconditional accounting conservatism and the effect of unconditional accounting conservatism among industries. The objectives of the study are as follows:

1. To understand the influence of unconditional accounting conservatism on real earnings management of Thai listed companies.
2. To understand the time effect of unconditional accounting conservatism on the real earnings management of Thai listed companies.
3. To study the factors of firm characteristics affecting real earnings management of Thai listed companies.
4. To conduct comparison study of the influence of unconditional accounting conservatism on the real earnings management across business sectors.

The research questions are as follows:

1. Does unconditional accounting conservatism affect real earnings management of Thai listed companies ?
2. Does unconditional accounting conservatism have a time effect on real earnings management of Thai listed companies ?
3. Does unconditional accounting conservatism provide differently effect on real earning management across business sectors ?

II. LITERATURE REVIEW

The researcher reviewed relevant literature relevant to the issues. The key points regarding accounting conservatism, real earnings management and the stock exchange of Thailand (SET) are respectively presented as follows:

2.1. Accounting Conservatism

Accounting Conservatism allows the management to exercise their discretion under uncertainty in order to provide reliable financial statements. According to Schipper K. and Vincent L.(2003), accrual-based earnings management represented profit quality. However, if discretion or real earnings management is highly exercised, the accounting figures will be used by the management to avoid excessive assets or revenues, and too low debts or expenditure which distorts accounting information. Discretionary accruals can be used as a measure by the management to estimate the uncertainty of accounting figures. According to Watts (2003a), accounting conservatism reflected the inequality of the imbalance in the perceived gain and loss. Basu (1997) defined accounting conservatism as perceiving the effects of good news and bad news relevant to the profit of the firm. This leads to inequality since bad news is faster perceived than good news. Watts and Zimmerman (1986) defined accounting conservatism as selecting to display the lowest possible asset value and the highest possible debt among other options, including perceived differences of profit and loss. In addition, Feltham and Ohlson (1995) defined that accounting conservatism as a forecast that the net asset value in a financial report will be lower than its market value in a long term. Givoly and Hayn (2000) explained

that accounting conservatism is a practice in accounting which reflects low profits compared to cash flows. Previous studies categorize accounting conservatism in to conditional conservatism and unconditional conservatism. Beaver and Ryan (2005) indicated that the value of net assets based on unconditional conservatism would be understated. Similarly, Ahmed et al. (2002) found that firms with higher profits tend to apply more accounting conservatism. Kohansal et al. 2017, Beaver and Ryan 2005, Gassen et al. 2006, and Iatridis 2011 also suggested that unconditional conservatism reflects financial statement audit. According to Hribar and Collins (2002), accrual forecasts with cash flow statement was more reliable than presenting financial statement solely. Furthermore, Cornett, Marcus, and Tehranian (2008) suggested using non-discretionary accruals together with cash flow statement.

2.2. Real Earnings Management

Healy and Wahlen (1999) explained that real earnings management occurred when the management exercised their discretion on financial reporting which consisted of (1) accruals management by applying an accounting policy related to accrual basis to hide actual operations, (2) real earnings management by exercising discretion on real activities manipulation in order to distort business practices, and (3) real earnings management by applying other approaches. Roychowdhury (2006) and Cohen et al. (2008) indicated that real earnings management by exercising discretion on real activities manipulation included cash flow of operation, discretionary expenses, and production costs. If there were operations that generated high incomes, but not generating cash flow, discretionary expenses was considered a business transaction to manage earnings management, affecting an increase or decrease in the profits of the firms. In regard to production costs, the management can determine the quantity of products to be produced in each period in order to reduce the cost of sales. Practically, production costs are correlated with the inventory level at the end of the period, the earnings tend to be higher compared to the normal period. However, Guay and Verrecchia, (2006); Watts, (2003); Chen, Hemmer and Zhang, (2007) stated that accounting conservatism reduced earnings management. These reflected that the behavior of the management had been controlled. As a result, the management tends to shift from applying accrual-based earnings management to discretionary earnings management. According to Demski, 2004; Ewert and Wagenhofer, 2005. Alarlooq et al. (2014) studied the relationship between conditional and unconditional accounting conservatism with discretionary earnings management, which is align with real activities manipulation. Garcia Lara et al. (2012) found that unconditional accounting conservatism reduced accrual-based earnings management in various industries, but increased discretionary earnings management and Thanaiudompat, T. (2023). The brand values development from the customer's perspective in sports apparel business in Thailand. In regard to production costs.

2.3 The stock exchange of Thailand (SET)

The Stock Exchange of Thailand officially started trading in 1991, and has continuously been developed. The Securities and Exchange Commission (SEC) serve investors by providing many stock indexes from 8 business sectors, including agricultural and food, industry, consumer products, financials, industrial, property and construction, resources, services and technology with more than 545 listed companies that provide 9 types of financial instruments (The Stock Exchange of Thailand, 2019).

After reviewing literature and prior studies, research framework was conducted to examine the effect of unconditional accounting conservatism on real management as shown in Figure 1.

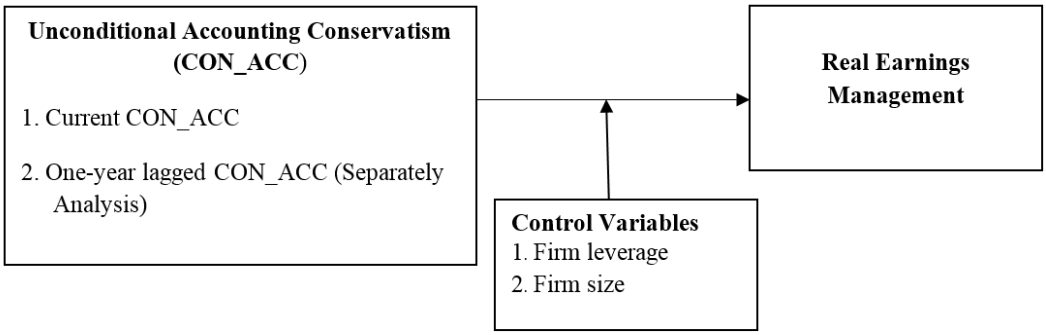

Figure 1. Research framework

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III. Research Methodology

The study aims to examine the effect of unconditional accounting conservatism on real earnings management. This section is divided into three subsections: sample and data collection, research variables, and empirical models as follows:

3.1 Sample and Data Collection

This research is based on annual financial data of companies listed on the Stock Exchange of Thailand during 2016-2018. However, companies in financial business group were excluded due to its different characteristics. Additionally, companies with unavailable financial data were dropped from the sample. This research employed panel data which included cross-sectional data and longitudinal data (Pedado and Requejo, 2015). The data were collected from the financial reports of 7 business sectors in the Stock Exchange of Thailand, comprising 234 companies with a total of 702 observations as shown in Table 1.

Table 1 :The sample data

Business Sector		Total assets (millions baht)	Number of selected companies
Agro & Food Industry	(1.Indcd)	933,422.77	36
Resources	(2.Indcd)	3,874,309.43	27
Technology	(3.Indcd)	818,934.91	25
Service	(4.Indcd)	846,434.64	40
Industrials Group	(5.Indcd)	202,863.017	49
Consumer Products	(6.Indcd)	144,063.43	29
Property and Construction	(7.Indcd)	868,236.02	28
Total		**7,688,264.22**	**234**

3.2 Research Variables

This study aimed to investigate the effect of accounting policy in terms of unconditional accounting conservatism on real earnings management. However, real earnings management was not able to measure directly. Thus, researchers employed Roychowdhury's Models (2006) and the models of Cohen et.al. (2008) to measure real earnings management in terms of residual terms of the models which reflect abnormal operating transactions. Four aspects measured by the models consisted of 1) total abnormal from total real earnings management, 2) abnormal operating cash flow on real earnings management, 3) abnormal discretionary expenses on real earnings management, and 4) abnormal production costs on real earnings management. The definitions and measurements of each dependent variables are shown in Table 2.

Table 2 :The definitions and measurements of the dependent variables

Variables	Definition and Measurements
Total real earnings management (REM_PROXY)	Total real earnings management = REM_PROD -REM_CFO -REM_DISEXP
Real earnings management of operating cash flow (REM_CFO)	Abnormal operating cash flow (Residual of the model) $CFO_{it}\ {}_iA/_{,-t1} = \alpha_0 + \alpha_{1i}A/_{,-t1} + \alpha_{2i}SALES_{,i}A/_{t,-t1} + \alpha_{3i}SALES\Delta_{,i}A/_{t,-t1} + \mu_{i,\ t}$
Real earnings management of discretionary expenses (REM_DISEXP)	Abnormal discretionary expenses (Residual of the model) $DISEXP_{i,\ {}_iA/,} = {}_{1-t}\alpha + {}_0\alpha_iA/_{1,} + {}_{1-t}\alpha_iSALES_{2,i}A/_{t,} + {}_{1-t}\mu_{i,\ t}$
Real earnings management of production costs (REM_PROD)	Abnormal production costs (Residual of the model) $_iPROD_{,i}A/_{t,} = {}_{1-t}\alpha + {}_0\alpha_iA/_{1,} + {}_{1-t}\alpha_iSALES_{2,i}A/_{t,} + {}_{1-t}\alpha SALE\Delta_{3i,i}A/_{t,\ 1-t} + \mu_{i,\ t}$

The major explanatory variables in this research were current unconditional accounting conservatism and one-year lagged of unconditional accounting conservatism. In addition, firm size and firm leverage were included as control variables. The explanatory variables are presented in Table 3.

Table 3 :The mnemonic and definition of the explanatory variables

Variables	Mnemonic	Definition
Explanatory Variable		
1.Unconditional accounting conservatism	*CON_ACC*	= Minus (net income minus operating cash flows divided by total assets)
Control Variable		
1 .Firm size	*FS*	= Logarithm of total assets
2. Firm leverage	*FL*	= Total liabilities / Total assets

3.3 Empirical Models

Data multicollinearity was verified using the Pearson correlation prior to performing multiple regression. In case of the presence of collinear variables, the variables would be dropped from the analysis models.

In this research, panel data regression was employed taking into the fixed effects (FE) models, which was to account for the heterogeneity effect (Gujarati, 2011). Importantly, unconditional accounting conservatism was deliberately lagged for one year to capture possible time-lagged effects. The current research proceeded as follows:

Firstly, the effects of current unconditional accounting conservatism on each of dependent variables were tested by employing variate regression in Model 1 as follows:

$$Y_{i,t} = \beta_0+\beta_1 CON\text{-}ACC_{i,t} + \mu i,t_{\varepsilon i,t} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

Secondly, the influence of one-year lagged unconditional accounting conservatism on each of dependent variables was tested by employing variate regression in Model 2 as follows:

$$Y_{i,t} = \beta_0+\beta_1 CON\text{-}ACC_{i,t-}1+_{\varepsilon i,t} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

Thirdly, to investigate the effect of control variables: firm size (FS) and firm leverage (FL), each dependent variable was tested by employing multiple regression in Model 3 as follows:

$$Yi,t = \beta_0+\beta_1 CON\text{-}ACC\ i_{,t-1}+\beta 2F_{li,t}+\beta 3FS_{i,t}+_{\varepsilon i,t} \ldots\ldots\ldots\ldots\ldots\ldots(3)$$

Where $Y_{i,t}$ is REM_PROXY, REM_CFO, REM_DISEXP and REM_PROD, which separately employed in each model respectively. *i* and t denote company *i* and year t, respectively. *εi,t* is the random error term for individual $_i$ in year *t.*

Lastly, Model 1 was re-employed to investigate the effect of CON_ACC on real earnings management for each business sectors for comparison study.

IV. Results

The research results consisted of descriptive statistics, multicollinearity in terms of the Pearson correlation and regression results. The details of each aspects were explained as follows.

4.1 Descriptive Statistics

The descriptive analysis inspected mean, median and standard deviation of each variable both dependent variables and explanatory variables as shown in Table 4.

Table 4 :Descriptive statistics

	Mean	**Median**	**Std .Deviation**	**n**
REM-PROXY	0.01-	0.07	1.24	702
REM-CFO	0.00	0.00	0.72	702
REM-DISEXP	0.02	0.25-	1.03	702
REM-PROD	0.01-	0.05	0.80	702

CON-ACC	0.03	0.03	0.08	702
FS	9.77	10.00	066.	702
FL	0.42	0.41	0.23	702

Four dependent variables: REM_PROXY, REM_CFO, REM_DISEXP and REM_PROD are employed in Table 4. The means of each dependent variables are close to zero, implying that abnormal earnings management of each aspects are rather low. However, the standard deviation of REM_PROXY and REM_DISEXP are higher than the other variables which reflect their higher data distribution. The results show that the mean and median of CON-ACC is 0.03, reflecting the different between profits in financial in financial reports and operating cash flows; however, the difference is quite low. The mean of firm size is 9.77 while the mean of firm leverage is 0.42 which is close to its median.

4.2 Pearson correlation

Pearson correlation analysis was used to determine the relationship between variables and to check the multicollinearity problem. The results of correlation are shown in Table 5.

Table 5: Correlation coefficient from Pearson correlation analysis

	CON-ACC	REM_ CFO	REM_ PROI	REM_DIS	REM_PROXY	FL	FS
CON-ACC	1						
REM_ CFO	.676**	1					
REM_ PROD	.-025	.-218**	1				
REM_DISEXP	.099**	.119**	.-447**	1			
REM_PROXY	.324**	.617**	.-397**	.-472**	1		
FL	.081*	.-182**	.093*	.-033	.-137**	1	
FS	.-072	.036	.-010	.-069	.084*	.299**	1

Note* :A significance level at 5 %and **A significance level at 1 %

Table 5 shows that unconditional accounting conservatism significantly provides positive relation to REM_CFO, REM_DISEXP and REM_PROXY, especially on REM_CFO with coefficient at .676. Firm leverage has a major impact on REM_CFO, REM_PROD and REM_PROXY. Importantly, no relationship between explanatory variables is over 0.80. Thus, there is no multicollinearity problem in the research.

4.3 Regression Results

4.3.1 Results from three regression models

The research results from three regression models in Section 3.4 were presented in Table 6 below.

Table 6: Regression results from three models

	Model 1		**Model 2**		**Model 3**	
	Coefficient (Beta)	P-value	Coefficient (Beta)	P-value	Coefficient (Beta)	P-value
Dependent variable :REM_PROXY						
c	-0.210	0.000**	-0.061	0.000**	0.281	0.722
CON_ACC	6.986	0.000**			6.795	0.000**
CON_ACC(-1)			-1.327	0.000**		
Fl					-1.206	0.001**
Log-fs					0.002	0.986
Adjusted R^2	0.658		0.567		0.665	
F-statistic	6.725**		3.602**		6.845**	
Dependent variable :REM_CFO						
c	-0.203	0.000**	0.016	0.000**	0.026	0.967
CON_ACC	7.047	0.000**			6.934	0.000**
CON_ACC(-1)			-2.084	0.000**		
Fl					-0.720	0.000**
Log-fs					0.008	0.909
Adjusted R^2	0.806		0.493		0.813	

F-statistic	13.318**		2.930**		13.845**	
Dependent variable :REM_DISEXP						
c	0.024	0.000**	0.025	0.000**	-0.264	0.534
CON_ACC	-0.208	0.317			-0.174	0.386
CON_ACC(-1)			0.022	0.000**		
Fl					0.200	0.002**
Log-fs					0.021	0.647
Adjusted R^2	0.838		0.834		0.837	
F-statistic	16.34**		11.00**		16.17**	
Dependent variable :REM_PROD						
c	-0.016	0.023*	0.052	0.000**	0.009	0.993
CON_ACC	0.269	0.279			0.312	0.204
CON_ACC(-1)			-0.779	0.000**		
Fl					0.286	0.409
Log-fs					-0.105	0.891
Adjusted R^2	0.602		0.620		0.602	
F-statistic	5.499**		4.246**		5.449**	

Note: CON_ACC (-1) represents one-year lagged of CON_ACC, *A significance level at 5% **A significance level at 1%.

From the Table 6, four dependent variables are employed and provided distinct results; as result, the result analysis of each dependent variables are explained as following.

In regard to total real earnings management (REM_PROXY), the results of Model 1 indicate that unconditional accounting conservatism (CON_ACC) positively related to real earnings management of Thai listed companies with a significance level at 1% and the adjusted R^2 of Model 1 is 0.658. The results of Model 2 indicate that one-year lagged unconditional accounting conservatism (CON_ACC_{t-1}) provides a significant negative relation with a significance level at 1 %The adjusted R^2 of Model 2 is 0.562 which may be due to accounting reversal in accordance with generally accepted accounting standards. The results of Model 3 which included CON_ACC, firm size and firm leverage indicate that CON_ACC is a major factor with a significance level at 1%. Whereas, firm leverage is negatively related to real earnings management with a significance level at 1 .%The adjusted R^2 of Model 2 is 0.665 .

For in-depth analysis, the real earnings management in terms of abnormal operating cash flow (REM_CFO) is tested .The findings show that the effects of CON_ACC, CON_ACC (-1) and firm leverage on REM_CFO are similar to those effects on REM_PROXY .However, the adjusted R^2 of Model 1 (0.806) and Model 3 (0.8013) of REM_CFO are higher than Model 1 (0.658) and (0.665) of REM_PROXY .This implies that unconditional accounting conservatism play more significant role on abnormal operating cash flow on total real earnings management.

The real earnings management in terms of abnormal discretionary expenses (REM_DIS), oneyear lagged unconditional accounting conservatism (CON_ACCt-1) provides a significant positive relation with a significance level at 1%. However, current CON_ACC is not an influential factor on abnormal discretionary expenses. Firm leverage is positively related to abnormal discretionary expenses with a significance level at 1%, reflecting the power of liabilities on abnormal discretionary expenses.

Regarding the real earnings management in terms of abnormal production costs (REM_PROD),only one-year lagged unconditional accounting conservatism (CON_ACC (t-1)) is an influential factor on abnormal production costs which provides a significant negative relation with a significance level at 1%.

4.3.2 Regression results of unconditional accounting conservatism effect across business sectors

After Model 1 is re-employed to investigate the effect of ACC_CON on real earnings management across business sectors, the analysis results are presented in Table 7 below .

Table7 :The effect of unconditional accounting conservatism on real earnings management across business sectors

	c		CON_ACC		Adjusted R^2	F-statistic
	Beta	P-value	Beta	P-value		
Dependent variable :REM_PROXY						
1.Indcd	-0.547	0.000**	8.313	0.000**	0.724	8.39**
2.Indcd	0.155	0.006**	9.252	0.000**	0.698	7.39**
3.Indcd	-0.382	0.000**	5.608	0.000**	0.831	14.52**
4.Indcd	-0.276	0.052*	3.003	0.155	0.470	3.51**
5.Indcd	0.125	0.000**	7.472	0.000**	0.744	9.30**
6.Indcd	-0.634	0.000**	8.101	0.000**	0.431	3.10**
7.Indcd	0.166	0.000**	6.505	0.000**	0.666	6.53**
Dependent variable :REM_CFO						
1.Indcd	-0.178	0.000**	7.967	0.000**	0.807	12.78**
2.Indcd	-0.201	0.000**	7.376	0.000**	0.824	13.87**
3.Indcd	-0.234	0.000**	5.036	0.000**	0.796	11.70**
4.Indcd	-0.209	0.000**	6.789	0.000**	0.794	11.95**
5.Indcd	-0.192	0.000**	7.283	0.000**	0.820	14.06**
6.Indcd	-0.278	0.000**	7.082	0.000**	0.839	15.47**
7.Indcd	-0.088	0.000**	7.727	0.000**	0.761	9.81**
Dependent variable :REM_DIS						
1.Indcd	0.499	0.000**	-0.169	0.472	0.976	114.49**
2.Indcd	-0.524	0.000**	0.036	0.846	0.929	37.19**
3.Indcd	0.001	0.989	-0.374	0.447	0.773	10.31**
4.Indcd	0.256	0.000**	1.522	0.035*	0.940	45.59**
5.Indcd	-0.426	0.000**	-0.278	0.032*	0.804	12.76**
6.Indcd	0.469	0.000**	-1.792	0.038*	0.595	5.07**
7.Indcd	-0.159	0.000**	0.139	0.683	0.531	4.13**
Dependent variable :REM_PROD						
1.Indcd	-0.130	0.000**	-0.177	0.801	0.777	10.79**
2.Indcd	0.168	0.001**	-1.91	0.021*	0.567	4.62**
3.Indcd	0.147	0.000**	-0.199	0.002**	0.875	20.17**
4.Indcd	-0.188	0.210	2.264	0.344	0.236	1.87**
5.Indcd	0.108	0.000**	0.090	0.734	0.845	16.65**
6.Indcd	-0.113	0.000**	0.773	0.000**	0.864	18.63**
7.Indcd	-0.095	0.000**	1.083	0.099	0.447	3.24**

Note: *A significance level at 5% **A significance level at 1%.

The findings in Table 7 show that unconditional accounting conservatism)CON_ACC (is positively related to total real earnings management (REM_PROXY) at a significance level at 1% for all business sectors, except service sector .However, unconditional accounting conservatism is positively related to abnormal operating cash flow (REM_CFO) for all business sectors at a significance level at 1% .This reflects that all business sectors employed unconditional accounting conservatism to manage abnormal operating cash flows. In addition, unconditional accounting conservatism has a significant impact on abnormal discretionary expense (REM_DIS) in service sector, industrial sector and consumer product sector at a significance level at 5% .This reflects that those three business sectors employs unconditional accounting conservatism to manage abnormal discretionary expense. Concurrently, current unconditional accounting conservatism provides a significant impact on abnormal production costs (REM_PROD) in resource sector at a significance level at 5%; while, technology sector, and consumer product sector at a significance level at 1%.

V. Discussion and Conclusion

5.1 Discussion and Conclusion

The major findings can be summarized as follows:

1.The impacts of current unconditional accounting conservatism (CON_ACCt) and one-year lagged unconditional accounting conservatism (CON_ACCt-1) on total real earnings management are always opposite due to reversing entries based on generally accepted accounting standards. This is in line with Zarandi, Ghafari, Esmaeel and Mahbobeh and Seyed (2013) who identified that accrual-based accounting was more informative, comprehensive, and provided better results compared to cash accounting. Thus, accrual-based account is a better tool for managing accounting affairs.

2.The impact of current unconditional accounting conservatism (CON_ACCt) and one-year lagged unconditional accounting conservatism (CON_ACCt-1) on total real earnings management (REM_PROXY) and abnormal operating cash flow (REM_CFO) are interesting since current unconditional accounting conservatism (CON_ACCt) provided a higher impact, reflecting from higher the magnitude of coefficient. Thus, accounting policy as unconditional accounting conservatism influences on real earnings management. This reflects that the use of discretionary accruals requires more current results. Nera & Murwaningsari (2017) and Li, H. (2018) found that accounting conservatism had a positive relationship with real earnings management on cash flow (REM_CFO) in the year that accrual-based earnings management was applied.

3. It is interesting that one-year lagged unconditional accounting conservatism (CON_ACCt-1) influences on abnormal operating cash flow (REM_CFO), abnormal discretionary expenses (REM_DIS), and abnormal production costs (REM_PROD) and finally, total real earnings management (REM_PROXY). This reflects the impact of accounting conservatism in the prior period on total real earnings management of the business. There are only few studies on this issue. Thus, this research study can fulfill the gap of unconditional accounting conservatism in terms of time effect. Jaimuk,P. (2022) The impact on cash flow volatility and earning volatility is highly volatile. The firm value is highly volatile. This results in high business value growth of the business in the future. Investors choose to invest in businesses with high business values.

4. Financial leverage impacts abnormal operating cash flow (REM_CFO) and abnormal discretionary expenses (REM_DIS) since accounting conservatism is a tool to manage financial figures to create credibility. This is in line with Zamri, Rahman & Isa (2013), who studied the companies in Malaysia and found that leverage had a negative influence on real earnings management on cash flow with abnormal operations. Moreover, abnormal discretionary expenses based on the model of Roychowdhury (2006) reflected that debts might impact on abnormal operating cash flow and abnormal discretionary expenses.

5. Surprisingly, all industries employed current unconditional accounting conservatism (CON_ACC) as a tool for manage real earnings in terms of abnormal operating cash flow (REM_CFO). All business sectors tended to present operating cash flow from their operations to create a positive public image. This is consistent with the requirements of financial reporting since require listed companies to report of key financial ratios and financial statements so that interested investors can use such information to make investment decisions (The Stock Exchange of Thailand, 2020).

6. The overall impact of current unconditional accounting conservatism (CON_ACC) on total real earnings management (REM_PROXY) was similar to abnormal operating cash flow (REM_CFO). Surprisingly, this impact was not found in service sector since firms in this sector did not have complex operational processes and no other expenses than actual operation expenses.

7. The significant effects of current unconditional accounting conservatism (CON_ACC) on abnormal discretionary expenses were found in service sector, industry sector, and consumer product sector. The firms of the three sectors had processes to facilitate real earnings management on discretionary expenses, such as the expenditures for research and development of products in the industry or training their employees.

8. The significant effect of current CON_ACC on abnormal production costs were found in resource sector, technology sector and consumer product sector. The evidences showed that firms in energy sector, technology sector, and consumer product sector had production processes which allows to manage abnormal production costs, such as purchasing high-volume raw materials to reduce unit costs despite the low sales volume.

5.2 Recommendations

This research found that accounting policy in terms of accounting conservatism influenced total real earnings management for more than one year. In addition, it also allowed discretionary conservatism. The suggestions for interested parties and financial stakeholders are as follows:

1. Financial statement users should recognize the influence of accounting conservatism that may occur for more than one accounting period or the time effect. Thus, the accounting information does not accurately reflect the actual information during the period.
2. Those who involved in financial statement process preparation should recognize the use of accounting conservatism to disclose financial information to benefit financial statements users.
3. The requirements that allow discretionary earnings management should be stricter to decrease real earnings management.

5.3 Future research

Suggestions for future research are that new models in ASEAN countries, including the influence of time effect based on unconditional accounting conservatism should be studied for further development.

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