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## **Extended Abstract**

### **The Association between Accounting Conservatism and Investment Efficiency in Tehran Stock Exchange (TSE)**

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#### **Introduction**

The main purpose of this study is to investigate the relationship between accounting conservatism and investment efficiency, to inform managers, investors and professional accounting bodies about the good quality of accounting conservatism as a qualitative characteristic of accounting information. Conservatism is expected (1) to improve the monitoring process over managerial investment decisions, decreasing investment in settings where managers are likely to over-invest, and (2) to facilitate the access to external financing at lower cost, increasing investment in settings where managers are likely to under-invest. This study highlights the informational benefits of conservatism, which is predicted to reduce information asymmetries. We find that more conservative firms are less likely to over- and under-invest.

#### **Research Hypothesis**

To achieve the purpose of this study, eight research hypotheses are chosen. These hypotheses are as follow:

1. There is a significant relationship between accounting conservatism and future investment at corporate level.
2. There is a significant relationship between accounting conservatism and future investment at industry level.
3. Accounting conservatism reduces investment in firms with

overinvestment.

4.Accounting conservatism reduces investment in industries with overinvestment.

5.Accounting conservatism increases investment in firms with underinvestment.

6.Accounting conservatism increases investment in industries with underinvestment.

7.Accounting conservatism increases investment efficiency at corporate level.

8.Accounting conservatism increases investment efficiency at industry level.

## **Research Method**

Firms in the statistical population of this study are the companies accepted in Tehran Stock Exchange. The study period is between the years 1378 to 1387. Research method is exploring and determining the relationship between dependent and independent variables by using regression and correlation. Post event inquiry researches have been used (using historical information). For statistical analysis and to test hypothesis, descriptive statistics (mean and standard deviation) and inferential statistics (correlation-test, single and multiple linear regression and analysis of variance) are used.

## **Results**

The results reveal that there is a significant correlation between accounting conservatism and future investment at corporate level and also at 7 industry groups' level. There have been significant negative correlation between firm size and future investment at company and chemical, food and pharmaceutical industries; there have also been significant and positive correlations between ratio of market value to book value and future investment at company and wood and textile, chemical, metal and ceramic industries; another result reveals that there have been significant negative correlations between financial leverage and future investment at company level and pharmaceutical and food

industries.

## **Discussion and Conclusion**

According to the results, we find that the accounting conservatism reduces overinvestment and underinvestment in corporate level and in various industries. Therefore, increasing conservatism will result in investment efficiency.

**Keywords:** Conservatism, Overinvestment, Underinvestment, Efficiency.