

Accounting conservatism: Measurements of research-intensive companies in Europe

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ABSTRACT

This work-in-progress research addresses evaluation of accounting conservatism through measurements in research-intensive companies in Europe. These measurements involve the assessment of unconditional conservatism by evaluating the trends of the market-to-book ratio compared to the degree of research intensity for the period 2011-2015. Conditional conservatism based upon the asymmetric timeliness coefficient measurement of the Basu regression model for the same period represents an evaluation of earnings conservatism. The most prevalent industries included were automobiles and parts, industrial engineering, electronics and electrical equipment, and chemicals. The companies sampled represent businesses with large investments in research and development (R & D) expenditures based upon total dollars expended. Companies in Europe follow International Financial Reporting Standards (IFRS) and possess greater opportunities to include expenditures in the balance sheet than their counterparts in the United States. This includes the development expenditures for these European companies. Growth patterns in R & D expenditures and the related intensity of these for the sampled companies were included in the analysis. The primary value added from this study relates to the potential for generating greater comprehension of these research-intensive industries, since accounting conservatism impacts understanding of resource stewardship, the audit function, agency theory and earnings management. The research project is being presented with a desire to receive guidance connected with the application of the methodology associated with the measurements of accounting conservatism.

Keywords: Accounting conservatism, research and development, asymmetric timeliness, Europe, International Financial Reporting Standards