

Impact of Accounting Conservatism on Earnings Persistence at Non-financial Listed Firms on Vietnam Stock Exchange

Thanh Hung Nguyen

Institute of Accounting and Auditing,
Thuongmai University, Hanoi, Vietnam

Trong Quang Vu

Institute of Accounting and Auditing,
Thuongmai University, Hanoi, Vietnam

ABSTRACT

The article is conducted to examine the impact of accounting conservatism on the earnings persistence. In order to achieve the aim of research, the panel data set was compiled, collected, and calculated from the audited financial statements of more than 400 non-financial enterprises listed on the Vietnamese Stock Exchange in period from 2012 to 2022. We perform essential tests to assess the likelihood of model defects in research models such as heteroskedasticity, autocorrelation, heteroskedasticity. Besides, fixed effects model and robustness tests were employed to overcome endogeneity issues. The results indicate that the level of accounting conservatism positively impacts earnings persistence. This finding implies that profits at firms with highly conservative financial reporting are maintained and forecasted to be more stable in future years than those at less conservative firms in accounting. Our findings provide valuable empirical evidence that implementing the prudence principle in accounting enhances the overall quality of financial statement information, particularly the quality of earnings as reflected through earnings persistence. Furthermore, the research findings provide a practical foundation for auditors at listed firms to advise, monitor, and fulfill their professional roles in guiding or requiring listed companies to adopt a higher degree of accounting conservatism.

Keywords: accounting conservatism, earnings persistence, earnings quality, listed firms, Vietnam Stock Exchange.

INTRODUCTION

By practicing accounting conservatism, although the reported accounting profit may be reduced in the current period, the cash flow increases while income tax may be reduced, making it easier for the business to invest more money in new projects, projects with positive Net Present Value (NPV) and making better profits in the following years [1]. Therefore, numerous empirical studies have demonstrated that the accounting conservatism level has a positive impact on profitability and profits in the future periods [2].

Similar to [1], another study conducted by [3] examined the relationship between the level of accounting conservatism, earnings persistence, and future special items charges. Higher future profitability and lower future special loss items are considered as the result of good investment

decisions. [3] found that firms that are more conservative in accounting have higher earnings persistence while having lower future special loss items than firms with low levels of conservatism. [3] also show that firms that prepare more conservative financial statements tend to have higher future profitability while future special loss items are lower than those with lower levels of accounting conservatism.

On the other hand, some other studies provide opposite results. Their studies indicate that the higher level of conservatism, the lower of earnings persistence, such as the study by [4], [5]. Similarly, the study by [6] shows that although the accounting conservatism degree tends to increase, the ability to forecast in earnings for future periods decreases. The inconsistent findings on the effect of conservative accounting on earnings persistence highlight that the principle of prudence in accounting remains a contentious issue. The varying outcomes of applying this principle are not yet universally agreed upon, reflecting the diversity in empirical research results. Thus, examining the impact of accounting conservatism on earnings persistence in non-financial companies listed on the Vietnam Stock Exchange—a relatively young market with over 20 years of development—is essential. This study aims to provide additional empirical evidence on the consequences (positive or negative), of applying this controversial accounting principle of conservatism.

In addition, instead of being established on the basis of an agreement on trading principles of securities brokers like some long-standing stock exchange in the world, the Vietnamese stock exchange was established on the basis of law through Decree No. 75/CP on the establishment of the State Securities Commission issued on November 28, 1996. On the other hand, unlike other economies in many countries around the world, Vietnam's economy is a socialist-oriented economy and has achieved certain successes in recent times (entering the top 40 largest economies in the world in 2023). Moreover, up to now, the State Securities Commission of Vietnam as well as the Vietnamese accounting system have not yet allowed listed companies to apply International Financial Reporting Standards (IFRS) in preparing their financial statements. Instead, they have to adopt Vietnam Accounting Standards - a set of standards were issued 20 years ago and still have many differences compared to IFRS and IAS such as there is no provision for recording impairment losses when they occur. The unique characteristics of the economy and stock exchange in Vietnam are considered as an interesting feature that motivates research on degree of accounting conservatism as well as the impact of conservative accounting on earnings persistence in listed firms here. Accordingly, to address these issues, this study seeks to answer the following research questions:

- *RQ1: Do listed companies on the Vietnam Stock Exchange show earnings persistence?*
- *RQ2: How does accounting conservatism degree impact on earnings persistence at listed firms on the Vietnam Stock Exchange?*

The remainder of our study is organized as follow. In addition to the introduction, part 2 of the article will present the theoretical basis related to accounting conservatism, literature review and research hypothesis development. The contents of research methodology, research model, sample and data processing are presented in part 3. In the next, part 4 of the article presents the research results. Finally, part 5 based on the results of data analysis, the article gives some conclusions and recommendations suitable to different financial statements users of listed firms.

THEORETICAL BASIS AND LITERATURE REVIEW

Definition and Role of Accounting Conservatism and Earnings Persistence

Definition and Role of Accounting Conservatism:

According to [7], accounting conservatism (also known as prudence in accounting) is a principle where accountants require more certainty to record good news than bad news. Therefore, good news is delayed rather than being recognized immediately in the financial statements (e.g., unrealized revenues). On the contrary, bad news is recognized immediately regardless of whether it has occurred (e.g. unrealized expenses, provisions). As a result, the practice of the prudence principle will lead to systematic differences in the timeliness and stability of profits between bad news and good news periods [7]. Similarly, [8] consider the principle of prudence in accounting from the perspective of the asymmetry between the timing of recording expenses compared to income in the financial statements and argue that, when implementing the principle of prudence, the accounting will record losses immediately while income is only recorded when realized. This principle helps users of financial statements avoid misinterpreting information about overly optimistic reports on the financial position of enterprises.

The above views partly agreed with the definition of [9] of conservative accounting. Accordingly, this view suggests that accountants should report the lowest value between the values being considered for assets and the highest values being considered for liabilities. Income should be recognized until there is authentic evidence (reflected in profits later). Simultaneously, expenses should be recognized earlier, just based on the evidence of the possibility of occurrence.

Based on the synthesis of the above viewpoints and concepts of accounting conservatism, we believe that the implementation of prudence in accounting plays an important role, promoted from many perspectives. Firstly, for the enterprises – the information provider, maintaining a certain conservative accounting level by immediately recording as well as recording expenses earlier will help the enterprise announce a lower income, reducing the portion of the profit that can be distributed to shareholders, thereby contributing to retaining resources for the enterprise in the next period. This role becomes especially useful in situations where risk and uncertainty arise. Secondly, from the perspective of financial statement information users such as lenders, shareholders, and investors, previous studies also show the significance of implementing and ensuring accounting conservatism degree.

Definition and Role of Earnings Persistence:

Earnings is always important information for users of financial statements. Accordingly, the earnings quality is an issue that all stakeholders are interested in. Although when referring to earnings quality, earnings persistence is not the only attribute, people often consider the stability or durability of profits as a qualitative characteristic of the quality of profits [10]. In research of a framework for assessing earnings quality, [11] suggested that stability is described as the predictive value of earnings. Earnings information in current period is considered relevant and usable as input to forecast earnings in future periods. [12] show that earnings persistence has a positive relationship both theoretically and empirically, with the extent to which investors react to reported earnings. In other words, the ability to maintain stable earnings is a

characteristic that demonstrates the usefulness of reported earnings in making investment decisions.

Thus, earnings persistence can be defined as the stability, the ability to maintain net income, and the predictive ability of future net income based on current period earnings. On the other hand, as mentioned above, conservative accounting leads to differences in the timing and basis of recording revenue and expenses. As a result, different levels of accounting conservatism can affect and create different numbers of net income as well as financial firm performance. Accordingly, to evaluate the consequences of implementing the prudence principle, the article examines the impact of accounting conservatism on earnings quality through earnings persistence based on secondary data from audited financial statements of non-financial listed firms on the VSE. To have an empirical basis, the next section will present an overview of the theoretical basis of the impact of accounting conservatism on earnings persistence.

Theoretical Background

Stakeholder theory is considered as a framework to explain the behavior of choosing accounting policies with different levels of conservatism and the timing of profit announcements according to the intention of managers [13]. [14] showed that UK electricity companies before privatization chose highly conservative accounting policies to minimize profits but applied less conservative accounting in the post-privatization period to maximize profits. Meanwhile, [15] pointed out that enterprises tend to implement conservative accounting policies to maintain long-term profit growth thereby satisfying implicit agreements with stakeholders including customers, suppliers, employees, and creditors.

Stakeholder theory provides a restorative explanation of the governance mechanism that under the pressure of stakeholders, managers try to minimize the level of information asymmetry, reduce transaction costs, and reduce unwanted monitoring from stakeholders [13]. Studies have shown that the application of strategic orientation to stakeholders, aiming to enhance reputation, legitimacy, and firm value, and foster long-term relationships with stakeholders, leads to higher levels of task resolution, higher earnings quality, and higher level of implementing conservative accounting policies. Accordingly, stakeholder theory is a suitable basis to explain the impact of accounting conservatism level on earnings persistence, one of the bases for assessing the earnings quality and financial statement quality [11].

Agency theory originates from the definition of the relationship between managers (agents) who act on behalf of or represent the interests of principals - owners of capital in a specific field, which was developed and widely studied in the social sciences since the early 1970s by [16] and [17]. Agency theory is the basis for the relationship between the manager and the shareholder [18]. In form, although aiming at the common goal of shareholders' interests, there are always inherent conflicts due to agency benefits or costs. Agency problems can be resolved through contracts or legal provisions, in which the contractual relationship is considered the basis for explaining the importance accounting conservatism in measuring and reporting results of managers in enterprises by specific terms of the contract [1].

In agreement with the above approach, [19] argued that agency problems can be solved by establishing a reward mechanism that encourages managers to act in the interests of

shareholders. In addition, many studies also suggest that monitoring the behavior and conduct of agents is also considered a useful way to minimize conflicts. This has led to the need to strengthen the functions and roles of accounting information as well as financial reporting. The publication of good quality, informative financial statements helps investors and shareholders better monitor the operations and effectiveness of managers. Meanwhile, accounting conservatism is considered one of the essential principles contributing to increasing the quality of financial reporting [20]. On the other hand, the quality of earnings, in which the persistence of earnings is an inseparable part, plays an important role not only in expressing the quality of financial statements [21] but also in ensuring the sustainable interests of investors and shareholders. Therefore, in this study, the foundation of agency theory is considered as the basis to explain the practice of accounting conservatism by enterprises and its impact on the earnings persistence at listed firms.

Literature Review and Hypotheses Development

In addition to seeking bonuses from the board of directors and shareholders through achieving and exceeding profit targets, managers always need verifiable information to make effective management and control decisions. In fact, ensuring the implementation of the prudence principle in accounting to a certain extent plays an important role in helping managers reduce the provision of biased information [1]. Ensuring conservative accounting practices in corporations is seen as a way to prevent overstatement of earnings and net assets. In this way, accounting conservatism is seen as an effective way to reduce the chances of senior managers making excessive payments or compensation to themselves and other forms of bonuses.

On the other hand, the more timely recognition of losses and expenses when implementing the prudence principle in accounting also contributes to preventing managers from investing in projects with negative NPV [22]. Although implementing the prudence principle may lead to the enterprise's profit in the current period to decrease, the profit in the following period can be maintained with higher stability [2]. Even in situations where there are potential risks and many uncertain factors such as a crisis, pandemics, the decline in profits may be lower if the enterprise previously ensured a reasonable level of accounting conservatism [23-25]. Accordingly, many studies have examined the impact of accounting conservatism on earnings persistence through the predictability of current-period profits for subsequent periods.

Based on data of 918 observations (firm - year) of listed companies on the US Stock Exchange belonging to the S&P 500 index during the period 1999 - 2001, [2] showed that accounting conservatism measured by the value of non-operating accruals has a positive impact on profits in future periods (from 1 year to 3 years later). In addition, the study by [3] using data of 23,681 observations of enterprises on Compustat from 1987 to 2004 provided empirical evidence of the positive impact of accounting conservatism on the profitability of enterprises after 3 years based on the measurement of cash flow and gross margin. In a recent study of 999 listed companies on the Korean Stock Exchange with data of 5,178 observations in the period from 1997 to 2013, [26] revealed that conditional accounting conservatism positively impacts and improves the coefficient of future earnings. The authors also pointed out that ensuring accounting conservatism contributes to conveying information about future earnings with higher quality.

Empirical studies have demonstrated that the accounting conservatism has a positive impact on profitability and future profits [2] as well as affect positively earnings persistence [3], [26]. Meanwhile, in the opposite direction, [4], [5]. showed that the higher the level of prudence, the lower the persistence of the enterprise's profits. In other recent case, [27] found that both accounting conservatism and auditing conservatism did not support persistence of earnings. Based on mixed results from previous empirical studies, combined with the theoretical basis of stakeholders and agency theory mentioned in the above section, aims to find the answer to the research questions, the research hypotheses are proposed as follows:

- H1: *The accounting conservatism level has an impact on the earnings persistence at non-financial listed firms on the VSE.*

In order to provide more details on the role and significance of accounting conservatism degree for earnings persistence, the study adds the sub-hypothesis H1a as follows:

- H1a: *Different levels of conservative accounting have different impacts on earnings persistence at non-financial listed firms on the VSE.*

METHODOLOGY

Variables Measurement

To answer the research questions, we apply the non-operating accrual model developed by [28] to estimate the accounting conservatism level at non-financial listed firms on the VSE. This model is chosen for two reasons: it is a popular model, easy to adopt, and suitable for a wide sample range; in addition, using the [28] model also eliminates the noises in stock price for a young Stock Exchange like Vietnam. Nevertheless, in order to reduce the difference in the value of non-operating accruals among enterprises due to differences in firm size, studies often use the ratio of non-operating accruals to average total assets [29]. Accordingly, the accounting conservatism degree of firm i in year t is determined according to the following formula:

$$\text{Acc-cons}_{i,t} = \frac{\text{Non-operating accruals}_{i,t}}{\text{Average total assets}_{i,t}} \times (-1)$$

In which:

Acc-cons_{i,t} is level of accounting conservatism at firm i in year t .

Non-operating accruals_{i,t} is the value of non-operating accruals at firm i in year t , calculated by:

$$\begin{aligned} \text{non-operating accruals} &= \text{Total accruals (before depreciation)} - \text{operating accruals} \\ \text{where: Total accruals (before depreciation)} &= \text{Net income} + \text{Depreciation} - \\ &\quad \text{Cash flow from Operations} \\ &\quad \text{Operating accruals} \\ &= \Delta \text{Accounts Receivable} + \Delta \text{Inventories} + \Delta \text{Prepaid Expenses} \\ &\quad - \Delta \text{Accounts Payable} - \Delta \text{Taxes Payable} \\ \text{average total assets} &= (\text{Total asset at beginning} + \text{Total assets at closing})/2 \end{aligned}$$

Based on the literature review, the research hypothesis developed above, and according to the suggestions of [30] and [10], the earnings persistence is determined through the statistically significant positive impact of pre-tax profit of this year (t) on pre-tax profit of the next year (t+1). Besides, [31] defined that earnings persistence means how much of existing profits will persist into the future and proceed from period to period. This measurement of persistence in earnings can be fomulated as below:

$$Earnings_{i,t+1} = \beta_0 + \beta_1 Earnings_{i,t} + \omega_{i,t} \quad (M1)$$

In which : $Earnings_{i,t}$, $Earnings_{i,t+1}$ are the pre-tax profit of enterprise i in years t, t+1, respectively.

Earnings persistence is measured according to model developed by [30], which has been applied in studies on the impact of factors on persistence of earnings by [2] and [10]. In addition, this model also is employed in recent researches by [32], [33], [27], [31] on earnings persistence. Accordingly, earnings persistence is measured by the positive and statistically significant value of the coefficient β_1 in the regression equation (M1).

Research Model

To test research hypotheses developed in the previous section, models M1a, M1b, and M1c are employed to analyze respectively based on the data sets of the entire sample (M1a), the first sub-sample consisting only of listed firms have high degree of accounting conservatism (M1b). Model M1c is built to analyze the second sub-sample of data consisting only of listed firms that have low accounting conservatism level.

$$Earnings_{i,t+1} = \beta_0 + \beta_1 Earnings_{i,t} + \beta_2 Acc - cons_{i,t} + \varepsilon_{i,t} \quad (M1a)$$

$$Earnings_{i,t+1} = \beta_0 + \beta_1 Earnings_{i,t} + \beta_2 Acc - cons.hi_{i,t} + \varepsilon_{i,t} \quad (M1b)$$

$$Earnings_{i,t+1} = \beta_0 + \beta_1 Earnings_{i,t} + \beta_2 Acc - cons.lo_{i,t} + \varepsilon_{i,t} \quad (M1c)$$

In which: **Acc – cons. hi_{i,t}** is the level of accounting conservatism at firm i in year t in the group of listed firms (First sub-sample) whose average of accounting conservatism degree is higher than the average level of conservatism in accounting on the entire sample. **Acc – cons. lo_{i,t}** is the level of accounting conservatism at firm i in year t in the group of listed firms (Second sub-sample) whose average accounting conservatism degree is lower than the average level of conservatism in accounting on the entire sample.

The Sample and Data Analysis

The population is identified as non-financial listed firms on the Vietnam Stock Exchange (include Ho Chi Minh Stock Exchange – HSX and Hanoi Stock Exchange – HNX), period 2012 - 2022. Financial, banking, insurance, and securities companies were excluded due to the specific characteristics of their operations and differences in accounting policies. The criteria for selecting a company for the research sample, consist of: (i) continuous listing period from before 2012 to the time of research implementation April 2024; (ii) sufficient data and information to calculate research variables in the period 2012 – 2022.

The process of synthesizing data from two Stock Exchanges in Vietnam shows that the total number of listed non-financial enterprises is 641 enterprises. After screening according to the two sampling criteria, 405 listed non-financial enterprises met and were used for data analysis and research hypothesis testing (equivalent to 63.08% over 641 of population), corresponding to 4,455 observations. Before performing regression analysis on the collected and processed panel data, it is necessary to conduct tests to assess the potential for model defects [34]. Defects such as multicollinearity, autocorrelation, and heteroscedasticity can reduce the reliability of regression estimation results. Consequently, several tests were conducted prior to running the regression to evaluate the presence of these defects, as discussed in the next section. To enhance the authenticity and robustness of the research hypotheses [35] on the impact of accounting conservatism on earnings persistence and to determine whether companies with higher accounting conservatism exhibit greater earnings persistence compared to those with lower conservatism, the sample set is divided into two sub-groups. Accordingly, enterprises with the mean value of accounting conservatism degree higher than the mean value of entire data set are classified into the high conservative accounting group (first sub-sample) while the rest are classified into the low conservative accounting group (second sub-sample). The descriptive statistics of the sub-samples are presented in Table 1, the following part of the article. The method of splitting the sample to strengthen the empirical results of the research models has also been widely applied in previous studies on the same topic, accounting conservatism [36].

RESULTS AND DISCUSSION

The data in Table 1 below presents an overview of the descriptive statistical results of the variables used in the research models established in the previous section. The values in Table 1 show that the mean of Acc-cons in the full sample is 0.0257, while the mean in the first sub-sample (high accounting conservatism degree) is 0.077. The number in the second sub-sample (low degree) is -0.0226. In addition, the mean of $Earnings_{i,t}$ and $Earnings_{i,t+1}$ also represent difference between three sample sets. In the group of low conservatism degree, the mean of $Earnings_{i,t}$ (0.0753) as well as mean of $Earnings_{i,t+1}$ (0.073) is smaller than the mean in the high conservatism degree sub-sample (0.07695 and 0.0781).

Table 1: Descriptive statistics

	Observations	Min	Max	Mean	Std.Dev.
<i>Full sample</i>					
$Earnings_{i,t+1}$	4,050	-0.4745	0.9154	0.0754	0.0887
$Earnings_{i,t}$	4,050	-0.4745	0.9154	0.0760	0.0884
Acc-cons	4,050	-0.9853	1.1878	0.0257	0.1341
<i>First sub-sample - listed firms have high accounting conservatism degree (M1b)</i>					
$Earnings_{i,t+1}$	1,960	-0.4751	0.839	0.0781	0.08559
$Earnings_{i,t}$	1,960	-0.4751	0.839	0.07695	0.083973
Acc-cons	1,960	-0.5394	1.1878	0.077	0.1169
<i>Second sub-sample - listed firms have low accounting conservatism degree (M1c)</i>					
$Earnings_{i,t+1}$	2,090	-0.3697	0.9154	0.0730	0.09174
$Earnings_{i,t}$	2,090	-0.3697	0.9154	0.0753	0.09254
Acc-cons	2,090	-0.985	0.8255	-0.0226	0.131

As mentioned in the previous section-tests to assess the likelihood of model defects are performed first. Table 2 below shows that the heteroskedasticity phenomenon exists in all four models measuring earnings persistence (M1) and the models assessing the impact of accounting conservatism on earnings persistence (M1a, b, c). This result leads to performing the analysis and reporting the regression results based on the appropriate estimation model that overcomes the model defects presented in Table 2 below.

Table 2: Results of the heteroskedasticity test

Breusch-Pagan/Cook-Weisberg heteroskedasticity	M1 Earnings persistence	M1a Full sample	M1b First sub-sample	M1c Second sub-sample
chi2 (1)	1.65	4,19	76.81	21,52
Prob > F	0.1984	0.0408	0.000	0.000
H ₀	Homogeneity	Homogeneity	Homogeneity	Homogeneity
Result for H ₀ test	Accepted	Rejected	Rejected	Rejected
White's test				
chi2(9)/chi2(12)	307.17	296.17	230.99	101.83
Prob > chi2	0.0000	0.0000	0.0000	0.0000
H ₀	Homogeneity	Homogeneity	Homogeneity	Homogeneity
Result for H ₀ test	Rejected	Rejected	Rejected	Rejected

The values in table 3 show the results of test for autocorrelation. The results show that models M1 to M1c have statistical values (Prob > F) all less than 5%, so the null hypothesis that there is no autocorrelation between variables in the model is rejected, and the alternative hypothesis that there is a phenomenon of heteroskedasticity exists is accepted. Accordingly, with regression analyses assessing the impact of conservatism degree on the earnings persistence using data in models M1, it is necessary to perform robustness tests to overcome the above phenomenon. The results of the regression models are presented in Table 5.

Table 3: The results of Wooldridge test for autocorrelation in the Models M1

Wooldridge test	M1	M1a	M1b	M1c
F (1. 403)	151.687 F (1. 404)	152.305 F (1. 404)	37.244 F (1. 195)	132.104 F (1. 208)
Prob > F	0.0000	0.0000	0.0000	0.0000
H ₀	no first-order autocorrelation	no first-order autocorrelation	no first-order autocorrelation	no first-order autocorrelation
The results	Reject	Reject	Reject	Reject

In the next table, table 4 below presents the results of F-test, Lagrangian test, Hausman test. The F-test results show that, between the two estimation models FEM and POLS, FEM is more suitable. Meanwhile, the Lagrangian multiplier test results show that the REM model should be used to estimate rather than POLS. Finally, between FEM and REM, the statistical significance value results of the Hausman test from all of four models show that the FEM is more suitable to estimate the impact of the independent variable on the dependent variable in the panel data. Consequently, the fixed-effects regression model was performed and presented results in the

table 5 for all of four models to estimate earnings persistence as well as impact of accounting conservatism on earnings persistence in non-financial listed firms on Vietnam Stock Exchange.

Table 4: The results of tests for selecting the suitable regression model

Model	Comparison	F test (all $u_i=0$) (Prob > F)	Lagrangian multiplier test (Prob > χ^2)	Hausman test (Prob> χ^2)	The best model
M1	POLS or FEM	0.0000			FEM
	POLS or REM		0.000		
	FEM or REM			0.000	
M1a	POLS or FEM	0.0000			FEM
	POLS or REM		0.000		
	FEM or REM			0.000	
M1b	POLS or FEM	0.0000			FEM
	POLS or REM		0.000		
	FEM or REM			0.0000	
M1c	POLS or FEM	0.0000			FEM
	POLS or REM		0.000		
	FEM or REM			0.000	

The findings in Panel A, Table 5 indicate that the earnings of non-financial companies listed on the VSE demonstrate persistence. The results of M1 show that the current year's profit before tax has a positive impact on the next year's profit before tax, shown through the beta coefficient of the profit before tax in year t being positive at 0.25 with statistical significance at 1%. In addition, the results presented in Panel B, Table 5, from the M1a model also show that accounting conservatism positively impacts earnings persistence at more than 99% confidence. Specifically, when the conservatism degree of listed firms in year t (increases by 1%), the profit potential in year $t+1$ is likely to increase by 3.2%. This ratio is stronger when considering the results from the M1b model with the group of listed firms having a mean of conservatism degree greater than the average of the entire sample (the beta coefficient increases from 0.032 to 0.068). This means that when considering only firms that practice highly conservative accounting, profits in the following year are more persistent than for the entire sample.

Table 5: Results of Earnings persistence assessment and the impact of accounting conservatism degree on earnings persistence

	Earnings _{i,t}	Acc-cons	Cons ₋	R-Squared
<i>Panel A - Earnings persistence</i>				
M1	0.2496***		0.0564***	5.96%
<i>Panel B - the impact of accounting conservatism degree on earnings persistence</i>				
M1a (Full sample)	0.2619***	0.032***	0.055***	6.34%
M1b (First sub-sample)	0.320***	0.068**	0.468***	9.00%
M1c (Second sub-sample)	0.225***	0.012	0.0563***	4.77%

Dependent variable is Earnings _{$i,t+1$} , and *** $p < 0,01$; ** $p < 0,05$; * $p < 0,10$

In contrast, for the second sub-sample, the group of listed firms have a low accounting conservatism degree, the results from model M1c do not show a statistically significant effect of Acc-cons of enterprises in year t on the earnings in year $t + 1$. In other words, a low level of accounting conservatism does not impact earnings persistence, which is reflected in the ability

to sustain and increase profits in the subsequent year. Therefore, the results offer empirical evidence that supports the acceptance of the hypotheses outlined in part 2 of the article. Specifically, hypothesis H1 indicates that accounting conservatism positively affects earnings persistence, and H1a states that higher levels of accounting conservatism correlate with greater earnings persistence. Conversely, low levels of accounting conservatism do not guarantee earnings persistence in the subsequent year. This result aligns with accounting practices, as when a business disregards or exercises low caution to ensure a good profit figure in the current period, it will need to be more cautious in the subsequent period (for example, setting up additional provisions). This increased caution can result in profits not being maintained or even reduced.

CONCLUSION

The results in the M1 models presented above highlight two main issues: First, the earnings reported by non-financial listed firms on the VSE demonstrate persistence. Second, accounting conservatism positively affects earnings persistence. These findings are entirely consistent with the research by [3], [2], and [26]. Additionally, the findings emphasize the significant difference in the level of impact between the high conservatism group and the low conservatism group. This once again supports the viewpoint that, on one hand, the implementation of accounting conservatism serves as an engagement for stakeholders and as a factor indicating the quality of financial statements. On the other hand, the higher the degree of accounting conservatism, the greater the guarantee of “reserves” for future earnings.

The results highlighting the positive effect of accounting conservatism on earnings persistence reinforce the idea that following the prudence principle in accounting not only bolsters early risk defense mechanisms for companies but also improves the quality of earnings reported in financial statements. Therefore, enterprises should uphold a level of conservatism to ensure a “reserve base” for addressing future risks and crises. Furthermore, the study provides empirical evidence that supports auditors in their roles at listed firms, offering a practical basis to advise, monitor, and execute their professional duties. This guidance helps listed enterprises adopt more comprehensive measures, ensuring a higher degree of accounting conservatism in the preparation and issuance of financial statements.

Additionally, based on the empirical findings, our results provide strong evidence for accounting standard setters and regulatory authorities to consider making accounting conservatism a mandatory practice. This principle should be maintained as a key attribute of financial information and accounting practices in enterprises. Such regulation ensures the quality of earnings and prevents severe profit declines that could lead to a market-wide crisis when risks arise. Consequently, it helps stabilize and increase stock returns, especially in emerging markets like Vietnam.

Although the research questions have been addressed, the study has certain limitations. Firstly, it focuses solely on sample of non-financial enterprises. Extending the analysis to assess the impact of accounting conservatism on earnings persistence in financial, insurance, and securities companies would be highly beneficial for stock market participants. Secondly, future research on this topic should explore and verify the additional impact of other factors, such as cultural characteristics and ownership structures, alongside accounting conservatism.

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