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The Relationship between Accounting Conservatism and Financial Risks in the Companies Listed in Tehran Stock Exchange

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Abstract: This study examines the relationship between accounting conservatism on the financial risks, so that a detailed study of this relationship due to the combined balance sheet and profit and loss point of view, according to this view, conservative accounting is an accounting concept that leads to a decrease in profit accumulated through late recognition of income and faster recognition of expense, low assessment and high evaluation of assets that determines the role of accounting conservatism. Accounting conservatism means more timely recognition of bad news than good news on earnings. In this study, to calculate financial risks, financial leverage, the current ratio and the size of the company has been used. Research sample includes 53 companies listed in the Tehran Stock Exchange during 2008 to 2013. The results of testing hypotheses, showed that between conservatism and financial risk, there is a significant positive relationship, however, that in none of the cases, there is no a significant relationship between conservatism and leverage ratio and current ratio and total assets.

Keywords: Conservatism, Leverage Ratio, Current Ratio, Financial Risk.

Introduction

Conservatism in accounting is an endorsement of different good and bad news. good news are positive returns for stocks or events that lead to increased profits, and bad news are zero or negative returns for the stock leading to a decrease in profit. So, conservatism is defined as profit reduction and less assets in response to bad news and show higher assets for good news (Basu, 1997). Preparing conservative financial statements increases on the reliability of accounting. Conservatism shows the ability of earnings to reflect economic benefit (positive return on equity) and economic losses (negative return on equity) indicates. Conservatism emphasizes on distinguishing between positive and negative stock returns. (Profit & economic loss) (Basu, 1997). In recent years, many researchers have attempted to provide criteria for measuring conservatism. One of the researchers, Basu (1997) defined conservatism as accountants tend to require a higher degree of demonstrable benefit to identify good news than bad news Basu, in fact, from the perspective of the income statement to the definition of conservatism, and the asymmetric behavior profit, to good and bad news as conservatism has learned. He uses this definition to be conservatism criterion for

assessment to implementation and formulation of relevant criteria, positive and negative stock returns will be considered a substitute for good news and bad. Thus, the definition of conservatism was considered related benefit return. During the following years of 1997 and are widely used Basu criterion to measure conservatism in accounting research, researchers to investigate more about this standard (QED). They investigated the relationship between these measures and other measures of conservatism, especially with respect to the results of a new MTB and ratio of market value to book value (MTB) expressed as a criterion for evaluation of conservatism (Kordestani & Haddadi, 2009). Risk: Risk can be defined as uncertainty about future results. This suggests that risk is a phenomenon related to the future, which cannot be accurately predicted. Risk is associated with uncertainty .Whatever the uncertainty is greater; the risk is greater (Dianati et al., 2010). In other words, there is risk or danger in any activity that is not a hundred percent probability of success. Nature of business and investment is required risk tolerance to get efficiency.

Financial risk: The possibility of losses arising from the financial structure and is determined using financial leverage, firm size and the current ratio (Eizadinia & Ali Naghian, 2010). Financial risks are part of the risk management, managers of financial institutions are responsible to assess the risks that financial institution as a result of its business activities and the environment is faced with. Financial risk is the possibility of losses arising from the company's financial structure and is determined using financial leverage the company's size and the current ratio. Risks associated of balance sheet structure includes sectors such as property, asset structure and management of the assets and liabilities in this area is more to this issue, how is that different combinations of assets in the balance sheet in other words whether the combination of the assets, there is likely to change in the future value or the value of stability to the majority of assets are included in the composition. Ratio of fixed assets to current assets, the ratio of financial assets to physical assets, financial assets are the criteria of this type of financial risk. This research aims to investigate the influence of conservatism on financial risk, in other words whether conservatism can affect financial risk.

The hypothesis of this study

The first main hypothesis: there is a significant relationship between accounting conservatism and financial risks.

Sub assumptions

1. There is a significant relationship between accounting conservatism and leverage.
2. There is a significant relationship between accounting conservatism and current ratio.
3. There is a significant relationship between accounting conservatism and total assets.

Research method and data collection

Research generally focuses on discovering general principles and studied general characteristics. Research is searching for skilled, disciplined and precise phenomenon. In other words, scientific research can be defined as, "a process by which relationships can be discovered hidden behind a phenomenon that may seem confusing.". This study is a quasi-experimental research and is considered as applied research in term of objective. In collecting data and information, the library method will be used. Regarding collection of information on the theory and literature from books, Persian and Latin magazines and specialized websites were used. The necessary information through the application process and the official website of the Stock Exchange version 2 will be collected. Finally, data will be analyzed from Microsoft Excel version 2007 and then using SPSS, version 20 and EVIEWS version 7.

Research variables

Independent variables: The independent variable of this study is to conservatism:
Conservatism described and measured from several perspectives, including:
1. Gains and losses Comment recognition of that bad news is good news to know with a high degree of approval.
2. Balance Sheet view that in cases of doubt, the accounting method chosen is the least favorable effect on equity.
3. Comment combined balance sheet and profit and loss, which, according to this view, conservative accounting, and an accounting concept that leads to a decrease in retained earnings through more rapid recognition of income and expense later recognition, low assessment and high evaluation of assets. In this study, third perspective is used to measure Conservatism. According to this conservatism accounting model will be as follows:

$$CON = (Acco \div B.Asset) \times (-1)$$

CON = accounting conservatism

ACCO = operating accruals
B. Asset = Total assets beginning
$ACCO = OI - OC + D$
OI = net operating Income
OC = operating cash flow
D = depreciation
In this study, after calculating the index conservatism of the average of the index will be used in the field of research time.

Dependent variable

The dependent variable of this study is measured by three indices of financial risk. Risk is defined as the inability to participate in the profits.

Financial risk: The possibility of loss resulting from company structures in order to test hypotheses in the first to third sub-study is determined using financial leverage, current ratio and firm size is. In the first sub-research hypothesis, financial leverage is measured as follows:

$$F_{i,t} = \frac{D_{i,t}}{A_{i,t}}$$

$F_{i,t}$ = leverage enterprise i for the financial year t

$D_{i,t}$ = total debt of the company i for the financial year t

$A_{i,t}$ = Total assets i for the financial year t

In the second sub-hypothesis test, the current ratio is measured as follows:

$$CR_{i,t} = \frac{CA_{i,t}}{CD_{i,t}}$$

$CR_{i,t}$ = Current ratio of company i for the financial year t

In third sub-study hypothesis, total assets are measured as follows: For the third sub-hypothesis, total assets under the terms of are considered a measure of financial risk. In their opinion, asset of is a support to pay debt. So a company that has fewer assets, financial risks will be greater. For this purpose, the natural logarithm of the assets will be used.

$$F_{RB} = L_n A_{i,t}$$

F_{RB} = financial risk

L_n = natural logarithm

$A_{i,t}$ = corporate asset i for year t

Control variables

Control variables as follows:

1. Operating cash flow (CFO_{it}): indicates the profitability of the company. When companies generate more cash flow are a better situation in terms of financial risks and obligations.

2. The annual change in income (FE_{it}): natural logarithm of annual change in interest.

Statistical society and research sample

The period of study is ten years during 2008 to 2013. Tehran Stock Exchange listed companies constitute the study sample. In this study, statistical sampling is not used, but the following criteria for sample selection were:
1. Company Financial Year is ended March every year.
2. Company during the years 2008 to 2013, the fiscal year has not changed.
3. Financial information required in order to extract the required data is available.

4. Not included in banks and financial institutions (investment companies, financial intermediaries, holding and leasing companies) because the financial information disclosure and corporate governance structures are different.
5. By the end of fiscal year 2007 in the Tehran Stock Exchange is accepted.
According to studies conducted 53 companies in the period 2008 to 2013 the above conditions were met and studied.

Theoretical foundations and history of research: In relation to conservatism, there are many researches both inside and outside. But there is no any research about conservatism and financial risk research and this study addresses this issue.

Fan and Zhang (2012) examined "accounting conservatism and quality of information" and concluded conservatism may even loss the opportunity to increase too cautious. As a result, the creditors not reward conservative companies, so concluded that the use of conditional conservatism ways of reducing in cost of credit in the Brazilian bank not benefit. As a result, the creditors not reward conservative companies, so concluded that the use of conditional conservatism ways of reducing in cost of credit in the Brazilian bank not benefit.

Asadi et al (2013) examined "The impact of accounting conservatism on investment decisions" and concluded that unconditional conservatism, adjusted by the ratio of book value to market value is measured based on the mentioned companies affect future profit margins. Setayesh and Karimipour (2013) examined "Effect of conditional and unconditional conservatism accounting on the risk of financial distress of listed companies on Tehran Stock Exchange and concluded that a weak negative correlation between conservatism and risk of financial is conditional distress. Kordestani and Rousta (2013) examined "Evaluation of conditional conservatism as a risk factor." and Concluded that conditional conservatism leads to increase accuracy and reduce information asymmetry. Increasing the accuracy of information leads to a decrease in stock price volatility and reduce risk would be and reduce the risk of also reducing the risk premium is therefore mean. Fakhari and Rasooli (2013) examined conservatism effect and quality of accrual on investment efficiency and concluded that, there is a direct correlation between investment variable and showed significant correlation between future investment variables and conservatism criteria and the effect of investment and conservatism. Mashayekhi and Motma'en (2013) examined "systemic risk and conditional conservatism" and concluded higher systemic risk manager's incentive to postpone the bad news, as well as reduce demand for conservatism behalf auditors, investors and creditors. Badavar Nahandi and Mohsen Hassani (2013) examined "Evaluation criteria for conservatism in financial reporting of listed companies on Tehran Stock Exchange." Concluded that in the mentioned companies, conservative contingent has not been met. This means that the sample companies to identify possible gains and losses have been to delay identification. Fakhari and Rasouli (2013) examined the effect of conservatism and accrual quality on the efficiency of investment. Findings showed that conservatism increases the company's investment performance.

Materials and Methods

In this study, data Panel - Pool method was used. This technique combines the time-series data, is now widely used by researchers. This method cannot be used for those issues as a time series or cross-examined or when the number of low data used. In the present study, to test the hypothesis in all companies, regression model in Panel - Pool mood is estimated as follows:

$$FinancialRisk_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$$

Which in the above model are?

$FinancialRisk_{it}$ = financial risk at the end of the period t for the company i; where the first and third participants were sub-hypotheses financial leverage ($F_{i,t}$), the current ratio ($CR_{i,t}$) and size (Frb_{it}) is used as proxies.

CON_{it} = Company conservative index i at the end of the fiscal period t;

CFO_{it} = operating cash flow i at the end of the period t;

FE_{it} = the natural logarithm of annual changes in the company's profits i at the end of the period t;

The analysis of data

Testing hypotheses: Before testing the hypotheses, reliability (stability), descriptive statistics and correlations among research variables studied and then tests to determine the best regression model F-Limer and Hausman test in Panel - Pool to test hypotheses have been examined.

Results

Assess the reliability of research variables

Results of reliability of research variables in all companies are provided in Table 1. To determine the reliability of test research variables, Levin, Lin and Chu were used. Results of this test suggest that independent variables, dependent and control during research in the study are reliable, because the amount of P-Value for the test was less than 5%. Reliability means that the mean and variance covariance over time and between different variables were constant.

Table 1. Test the reliability of research variables.

Kind of test	Levin, Lin and Chu probability	Levin, Lin and Chu value
Variables	0.0000	-13.9860
Financial leverage Fi	0.0000	-14.2639
Current ratio CR	0.0000	-13.38926
Financial risk Frb	0.0000	-10.4930
Conservatism CON	0.0000	-10.9607
Operational cash flow CFO	0.0000	-13.2122

Check Descriptive statistics of variables in all companies

Descriptive statistics research variables in all companies are provided in Table 2. By comparing the coefficient of variation (standard deviation divided by the average result) financial risk variables during the 6-year study concluded that the natural logarithm of variable corporate asset (F_{rb}) has a lower coefficient of variation and distribution and therefore more stable over the study period and the current ratio (CR) has a coefficient of variation and dispersion, and thus more stable and less stable during the research period. This suggests that the current ratio of the company is under the influence of other factors. In this study, a number of them were used as control variables. Of control variables, the logarithm of annual change in income (FE) has the lowest coefficient of variation and distribution, resulting had more stability during the research period. This suggests that companies review the changes income didn't experience a significant difference. However, the companies in terms of operating cash flow (CFO) have significant differences. Other Results of descriptive statistics indicate that companies consider the average operating cash flow 426 195 million RIALS and current ratio of 1.4694.

Table 2. Descriptive statistics research variables in all companies.

Variable	F_i	CR	F_{rb}	CON	CFO	FE
Number	318	318	318	318	318	318
Average	0.6070	1.4694	5.6074	0.1297	426195	5.7158
Mean	0.6205	1.1834	5.5774	0.0485	54729	5.7230
Maximum	1.3377	11.5589	7.0824	8.6271	19395996	8.0029
Minimum	0.0964	0.0102	4.2748	-2.2688	-5612730	4.0000
Standard deviance	0.1905	1.4704	0.5284	0.7194	1890094	0.6966
Coefficient frequency	0.3138	1.0007	0.09423	5.5466	4.4348	0.1218

Evaluate the correlation between variables in all companies

The correlation between the researches variables are as follows: The correlation between the research variables is shown in Table 3 that during the period of study, financial leverage with the current ratio, the natural logarithm of assets, operating cash flow and changes in income annually has had a significant negative correlation. This issue indicates that the increase in financial leverage to reduce the above-mentioned variables. Other correlation results showed a significant positive correlation with operating cash flow and the natural logarithm of assets. Other correlation results are provided in Table 3.

Table 3. Correlation between research variables.

Variable	F_i	CR	F_{rb}	CON	CFO	FE
F_i	1.000					
	--					
CR	-0.14255	1.000				
	0.0111	--				
F_{rb}	-0.21168	-0.0964	1.000			
	0.0001	.0866	--			
CON	0.01822	-0.0049	0.1190	1.000		
	0.7466	0.9295	0.0341	--		
CFO	-0.1912	0.07411	0.3717	0.7916	1.000	
	0.0006	0.1881	0.0000	0.0000	--	
FE	-0.1080	0.1008	0.06763	0.0441	0.0922	1.000
	0.0547	0.0729	0.2298	0.4336	0.1011	--

The first sub-research hypothesis

First subsidiary hypothesis: there is a significant relationship between accounting conservatism and leverage. Before the test this hypothesis, the choice of a suitable model for the regression model are discussed. Initially F-Limer was used to choose panel data model compared combined data model. F-Limer test result is provided in Table 4. Limer. Probability of F statistics is shown in Table 4.4 below the 5% level of significance, and so, to test this hypothesis using consolidated data is excluded.

Table 4. Selected consolidated data from data in combined.

Model	$FI_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$		
Kind of test	Test statistic	Freedom degree	Probability of test statistic
limer F	13.9730	(52 and 261)	0.0000

Due to lack of consolidated data model data in combined to perform Hausman test to select the fixed effects model against the random effects model was investigated. Hausman test result is provided in Table 4. Hausman statistical probability in Table 5 is less than the significance level of 5%; therefore, there is no reason to reject the fixed effects model and fixed effects model was used to test the first hypothesis.

Table 5. Select the fixed effects model against the random effects model.

Model	$FI_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$		
Kind of test	Chi-square value	Chi-square freedom degree	Probability of test
Hausman	8.8510	3	0.0313

Regression model combined a conservative influence on financial leverage (measured as an indicator of a company's risk) is provided in Table 6.

Table 6. Relationship conservatism on the company's financial leverage.

Statistic	Probability of T statistic	T statistic value	Regression coefficient
Variables	0.0000	7.387544	0.528510
Constant value	0.0826	1.742753	0.035440
Conservatism CON	0.1222	-1.550458	-1.25 E– 08
Operational cash flow CFO	0.0000	7.387544	0.528510
	Durbin-Watson		F Probability statistic
	1.575		0.0000

Results obtained in Table 1-6 shows the effect of conservatism on the company's financial leverage, positive (0.035440), but according to statistical the possibility of t (0.0826) is not significant. The other hand annual profit impact of changes in financial leverage is positive and significant. In other words, companies with annual changes are more income, larger leveraged. Relationship between operating cash flow and financial leverage is not confirmed. F statistic results also show that the model was significant in general and with regard to the Durbin-Watson autocorrelation is no problem. In addition, the results of the adjusted coefficient of determination shows that the entire study period, about 72% of firms affected by changes in financial leverage in the overall level of conservatism and control variables and measure the company's operating cash flow. Due to significant lack of conservative financial leverage of listed companies on Tehran Stock Exchange, the first hypothesis is not confirmed.

The second research sub-hypothesis test

Second subsidiary hypothesis: there is a significant relationship between accounting conservatism and current ratio. Before testing the second hypothesis, the choice of a suitable model for the regression model is discussed. F-Limer test result is provided in Table 4-7. Limer probability value of F statistics in Table 7 less than the significance level of 5% and thus, for the second hypothesis test using combined data is excluded.

Table 7. Selected consolidated data from data in combination.

Model	$CR_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$		
Kind of test	Chi-square value	Chi-square freedom degree	Probability of test
F Limer	19.4387	(52 and 261)	0.0000

Due to lack of consolidated data model data in combination to perform Hausman test to select the fixed effects model against the random effects model was investigated. Hausman test result is provided in Table 8. Hausman statistical probability value of in Table 1-8 is even more significant level of 5%; therefore, there is sufficient reason to reject the model of fixed effects and random-effects model was used to test the second hypothesis.

Table 8. Select the fixed effects model against the random effects model.

Model	$CR_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$		
Kind of test	Chi-square value	Chi-square freedom degree	Probability of test
Hausman	1.4230	3	0.7001

Fixed-effects regression model combined effect of conservatism on the current ratio of listed companies in Tehran Stock Exchange is presented in Table 9. Results obtained in Table 9 shows the effect of conservatism on the company, negative (-0.068199) but probably the statistic t (0.6270) is not significant. This shows that conservatism has no effect on the company's current ratio. Other results showed a significant and positive impact on the ratio of current operating cash flow of the company. In other words, companies operating cash flow more than their more current. The effect of changes in annual profits to the current ratio was not confirmed. F statistic results show that the model was significant in general and with regard to the Durbin-Watson autocorrelation is no problem. In addition, the results of the adjusted coefficient of determination shows that the total period of about 0.63% of all companies affected by changes in current ratio in the second hypothesis of the research variables. Due to the lack of impact of conservatism on the current ratio of listed companies in Tehran Stock Exchange, the second research hypothesis is not confirmed.

Table 9. The effect of conservatism on the company.

Statistic	Probability of T statistic	T statistic value
Variables	0.0119	1.250788
Constant value	0.6270	-0.486418
Conservatism CON	0.0149	0.365595
Operational cash flow CFO	0.1010	1.644761
Natural logarithm of annual earning frequency FE	Durbin-Watson	F Probability statistic
Coefficient of determination	2.292	0.0000

The third sub-study hypothesis

The third subsidiary hypothesis: there is a significant relationship between accounting conservatism and total assets. Before the third hypothesis test, to choose a suitable model for the regression model are discussed. F-Limer test result is provided in Table 10. Limer probability value of F statistics in Table 10 less than the significance level of 5% and thus, for the third hypothesis testing using the consolidated data is excluded.

Table 10. Selected consolidated data from data in combination.

Model	$Frb_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$		
Kind of test	Chi-square value	Chi-square freedom degree	Probability of test
F Limer	64.5688	(52 and 261)	0.0000

Due to lack of consolidated data model data in combination to perform Hausman test to select the fixed effects model against the random effects model was investigated. Hausman test result is provided in Table 11. Hausman statistical probability value of Table 11 is less than the significance level of 5%; therefore, there is no reason to reject the fixed effects model and fixed effects model was used to test the second hypothesis.

Table 11. Select the fixed effects model against the random effects model.

Model	$Frb_{it} = \alpha_0 + \alpha_1 CON_{it} + \alpha_2 CFO_{it} + \alpha_3 FE_{it} + \omega_{it}$		
Kind of test	Chi-square value	Chi-square freedom degree	Probability of test
Hausman	19.2424	3	0.0002

Fixed-effects regression model combined effect of conservatism on the natural logarithm of assets (as an indicator of financial risk) firms listed in the Tehran Stock Exchange is presented in Table 12. Results obtained in Table 12 shows the effect of conservatism on the natural logarithm of assets, minus (-0.091560) and considering the possibility of statistic t (0.0011) is significant. This indicates that company size increases, conservative company, which in accordance with the political cost is reduced. In other words, given that larger firms are in the eyes of politicians, apply more conservative. Other results showed a positive and significant impact on the financial risk the company's operating cash flow. In other words, larger companies have more operating cash flow. Results related to F statistic show that the model was significant in general and with regard to the Durbin-Watson statistic, autocorrelation is no problem. In addition, the results of the adjusted coefficient of determination shows that the entire study period, about 93% of the financial risk changes (natural logarithm of assets) in all companies under the influence of variables has been the second hypothesis. Due to the negative impact of conservatism on financial risks (natural logarithm of assets) firms listed in the Tehran Stock Exchange, third hypothesis is confirmed.

Table 12. Relationship between conservatism on the company's financial risk (natural logarithm of assets).

Statistic	Probability of T statistic	T statistic value
Variables	0.0000	57.78987
Constant value	0.0011	-3.296612
Conservatism CON	0.0001	4.033137
Operational cash flow CFO	0.6267	-0.486985
Natural logarithm of annual earning frequency FE	Durbin-Watson	F Probability statistic
Coefficient of determination	1.73	0.0000

Discussion and Conclusion

The first hypothesis of this study was to examine the issue as to whether conservatism accounting firm with significant leverage or not? To investigate this hypothesis, the fixed-effects regression model with respect to the F-Limer tests was used. The results of this thesis are summarized as follows:

1. Conservatism impact on the company's financial leverage, positive (0.035440) but probably the statistic t (0.0826) is not significant.

2. Annual changes in financial leverage is positive and significant profit. In other words, companies with annual changes are more profitable, larger leveraged.
3. Relationship between operating cash flow and financial leverage is not confirmed.
4. Results related to F statistics also show that the model was significant in general and with regard to the Durbin-Watson autocorrelation is no problem.
5. In addition, results related to adjusted coefficient of determination shows that the entire study period, about 72% of all companies affected by changes in financial leverage in conservatism and control variables, operating cash flow and the size of the company.
6. Given the lack of significant leverage conservatism of listed companies on Tehran Stock Exchange, the first research hypothesis is not confirmed.

The second hypothesis of this study was to examine the issue as to whether conservatism accounting of the company is effective or not? In order to evaluate this hypothesis, the random-effects regression model with respect to the F-Limer and Hausman tests were used. The results of this thesis are summarized as follows:
1. The effect of conservatism on the company, negative (-0.068199) but probably the statistic t (0.6270) is not significant. This shows that conservatism, does not affect the company's current ratio.
2. Other results showed a positive and significant impact on the operating cash flow of the company. In other words, companies operating cash flow more than their more current.
3. Effect of changes in annual profits to the current ratio could not be verified.
4. Results related to F statistics show that the overall model was significant and due to the Durbin-Watson autocorrelation is no problem.
5. Results related to adjusted coefficient of determination shows that the total period of about 0.63% of all companies affected by changes in current ratio in the second hypothesis of the research variables.
6. Due to the lack of impact of conservatism on the current ratio of listed companies in Tehran Stock Exchange, the second hypothesis is not confirmed.

The third hypothesis of this study was to examine the issue whether the natural logarithm assets accounting conservatism (as a proxy variable of financial risks), effective or not? In order to evaluate this hypothesis, the fixed-effects regression model with respect to the F-Limer and Hausman tests were used. The results of this thesis are summarized as follows:
1. Conservatism impact on the natural logarithm of assets, minus (-0.091560) and probably the statistic t (0.0011) is significant. This indicates that by increasing the size of the company, Conservatism Company reduced that it meets the political cost. In other words, given that larger firms are in the eyes of politicians, apply greater conservatism.
2. Other results showed a positive and significant impact on the financial risk of the company's operating cash flow. In other words, larger companies have more operating cash flow.
3. Results related to F statistics show that the overall model was significant and due to the Durbin-Watson autocorrelation is no problem.
4. In addition, results related to adjusted coefficient of determination shows that the entire study period, about 93% of the financial risk changes (natural logarithm of assets) in all companies under the influence of variables has been the second hypothesis.
5. With regard to the negative impact of conservatism on financial risks (natural logarithm of assets) firms listed in the Tehran Stock Exchange, third hypothesis is confirmed.

Summary results from the assumptions of the first to third sub-study showed that accounting conservatism not affect the financial leverage and the current ratio of assets affects the natural logarithm. Hence we can say that accounting conservatism on the financial risks of the alternative variables leverage and the current ratio was not affected, but the variable natural logarithm of assets is impressive.

Recommendations due to research findings

1. Due to the lack of significant effect of conservatism on the company's financial leverage, it seems that firms listed in the Tehran Stock Exchange, the company's leverage loans and high risk are not considered. This theorem can be affected by inflation. It is suggested that the effect of inflation adjustment on financial leverage conservative variables investigated.
2. Given the lack of significant effect on the relative conservatism of the company, it seems the current ratio and working capital of enterprises, affected by external factors (such as the risk environment). Therefore it is recommended to factors affecting the current ratio and working capital of enterprises should be considered.

Recommendations for future research

According to the researcher, there are still various issues in this area that could be important for future research. Therefore, it is suggested to make the most of the findings and help to better assess the impact of conservatism on financial risk, pay more attention to the following issues:

1. Review and analysis of financial risk factors or simultaneous equations using structural equation. Since the there are many alternative variables that could indicate a company's financial risk, it is better to examine the effect of these variables at the same time. The use of structural equations and simultaneous equations may be appropriate.
2. Since the financial risk, internal and external factors affecting the company, therefore it is recommended using autoregressive models VAR to identify undiscovered variables affecting financial risk.
3. Doing similar research at various industries of sock exchange

Research limitations

1. Due to the limited population of firms listed in the Tehran Stock Exchange and the financial year ending March, and extend the results to other companies should be careful to do.
2. In the process of scientific research, particularly in the humanities, such as accounting cases in which out-of-control researcher and potentially could affect the study results. The purpose of this study was to evaluate the effect of conservatism on the company's financial risk. Therefore, the effect of some variables was controlled by the researcher. Therefore, the actions might affect other variables on the dependent variable, likely results would change.

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