Auditing, earnings management and accounting conservatism: consolidated and parent company accounts compared.

A case study of UK listed companies

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DISSERTATION WORDAGE

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Executive Summary

This dissertation essay examines the reflection of consolidated and parent company accounts on earnings management and accounting conservatism. Moreover, the present essay scouts the differences of consolidated and parent company accounts as far as the influence of market size and auditing of Big 4 auditors on financial measures is concerned. The study's sample consists of 367 UK firms, all of which are listed on the London Stock Exchange, examined for the accounting period of 2005-2008. The study has focused on the period after the adoption of IFRs, thus, the study focuses on a large period encompassing the transition from UK GAAP to IFRs. It is very important how the transition from GAAP to IFRS affected companies' financial statements. It is believed that the period from 2005 to 2008 will be representative in order to observe the changes and how easily or not the firms have faced the problems of this change. The research method selected is the conclusive, secondary one, using quantitative and qualitative data. In order to analyze the data collected, the hypothesis testing method has been employed. The research findings suggest that the study indicates that large consolidated accounts and small parent company accounts have a greater financial structure and performance than the others. Moreover, consolidated accounts audited by Big-4 auditors control their profitability more effectively. However, parent company accounts that audited by Big-4 auditors are less profitable and they have less good financial structure. In addition, the findings report that consolidated accounts with smaller size, lower profitability and high total liabilities to shareholder's funds engage more in earnings management. Finally, the study provides evidence that parent company accounts reinforce the contracting efficiency and validity of reported financial numbers, thereby increasing accounting conservatism. In contrast, consolidated accounts tend to employ less in accounting conservatism. The present study could be proven of help to a variety of interested groups like firms, financial institutions, auditors, investors and others.

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1. Introduction, Research Objectives and Research Questions

1.1 Research background

In many countries, companies prepare and publish more than just one set of accounts. At least, single and group accounts can be distinguished and in most cases there are also separate tax accounts which are only released to the relevant authorities (Goncharov et al, 2009). Similar to a large number in the world like France, Italy, and Japan, German holding companies have to prepare both company and consolidated accounts (Goncharov et al, 2009). Companies which prepare more than one sets of accounts, use each sets to meet specific reporting demands (Holthausen and Watts, 2001). It means that accounting properties are different in both sets of accounts (Holthausen and Watts, 2001).

This essay aims at studying the reflection of consolidated and parent company accounts in four stages: market size, auditing, earnings management and accounting conservatism. The study also seeks to identify the financial characteristics of the above accounts.

The specific topic preoccupied me during the last three years of my studies in the MBA and I was now, pending my dissertation essay elaboration, given the chance to delve into this particularly intriguing, multilateral and comprehensive scientific issue.

Finally, the implications of the final conclusions are expected to be interesting for individuals interested in the relevant topic such as managers, shareholders, the state, investors and others. I expect to attract this group of people because the described items are important for the financial structure, performance and position of the majority of firms.

1.2 Aims and objectives of research

The object of research of this dissertation essay is to work out financial and accounting issues in order to explain the behavior of consolidated and parent company accounts in specific financial items. The motivation for studying these accounts is to discover differences or similarities of them in some accounting items. First of all, the study examines the differences between large and small consolidated and parent company accounts and what the accounting ratios show for them. In addition, this essay investigates the impact of audit practitioners, who audit the financial statements of companies to these accounts. The main research question of the study is how the consolidated and parent company accounts differ in the direction of audit, earnings management and accounting conservatism and if this fact affects the financial position, structure and performance of firms. Moreover, the study seeks to show how earnings managements and accounting conservatism would improve the financial numbers of the firms that tested.

It is logical that a lot of surveys have become in this direction. Some empirical research in this topic is remarked below. To start with, a lot of researches show that single accounts used to decide on the amount of distributable income, a further function assigned by law (Niskanen et al, 1998). Cornell and Liu (2001) study the market value of group and company accounts and they found that the market value of a parent company is less than the market value of its publicly traded subsidiary. Parent holding tend to be highly concentrated (Cornell and Liu, 2001). Moreover, other studies show that parent companies are rarely passive investors in their subsidiaries (Goncharov et al, 2009). Furthermore, “investments in subsidiaries are recognized in the parent company’s balance sheet under the position “Financial property” (Goncharov et al, 2009), For example, the parent companies decides the conditions under which cash will be given to the investors of the subsidiary. Moreover, company accounts have other assets in addition to their holdings of traded stock (Cornell and Liu 2001). “As for agency costs, the relationship between the parent and the subsidiary must be identical to that between a closed-end fund and its

holding" (Cornell and Liu, 2001). All the costs and benefits associated with ownership of the subsidiary must be allotted to the shareholders without passing firstly from the parent company (Goncharov et al, 2009: Cornell and Liu, 2001). Perhaps the above have moved in a different direction than this essay but it shows that this topic possibly is interesting in a set of both individuals and conveyors.

Harris et al (1994) and Niskanen et al (1998) show that the attributes of single and group accounts differ. Moreover, they show that consolidated accounts are more value relevance than parent company accounts. Furthermore, previous research has shown that group accounts depict the financial position of the economic entity while company accounts are prepared for the legal entity (Harris et al, 1994: Goncharov et al, 2009). According to Goncharov et al (2009) consolidated accounts are to "provide a true and fair view about an economic entity's financial position". In the other side, the single accounts prepared for the legal entities. However, the single accounts do not inform only for the legal entity's financial position but also the starting point both for taxation and computation of distributable income (Cornell and Liu, 2001).

In addition, single accounts prepared using domestic GAAP, while consolidated accounts of listed companies have been allowed to be prepared following international GAAP (Cornell and Liu, 2001). Goncharov et al (2009) found that the single accounts play no incremental role in contracting, valuation or the determination of dividend payouts.

In parent company accounts investment in subsidiaries are recognized in the parent's balance sheet (Goncharov et al, 2009). All distributors are recognized as financial income. Thus, all assets and liabilities are recognized in one group balance sheet. The differences around the consolidated and parent company accounts are the below: accounting procedures for affiliated companies, timing of income distributor, consolidation techniques and accounting treatments (Goncharov et al, 2009). The audit practitioners either Big 4 or non-Big 4 auditors audit the financial statements of

companies thus they play an important role in the firms function (Jenkins and Krawczyk (2001). Shafer et al (2001) note that the auditors' perceptions of their own independence can provide constructive feedback to the regulators and accounting bodies to assist in accounting and audit policy decisions. Usually, Big 4 auditors audit the large companies and non-Big auditors audit the medium and small companies (Jenkins and Krawczyk, 2001: Reynolds and Francis, 2001). Furthermore, auditors are commercially sophisticated people and possess good accounting knowledge (Jenkins and Krawczyk, 2001). Reynolds and Francis (2001) comment that large clients have the greater litigation risk and they found the auditors reported more conservatively for the larger clients for the reason of reputation protection and litigation avoidance. In addition to adverse reputation effects, the litigation costs would be greater, especially for large clients (Francis, 2004). In a competitive environment, auditors perform audit tests in order to discover material errors in the financial statements (Law and Willett, 2004). An important substantive test which they use is analytical procedures during the planning and final review of the audit.

Prior research has shown that the earnings of Big 4 audit are of higher quality that the non-Big 4 (Francis, 2004) with the gap in earnings quality widening with variations in investor protection (Francis and Wang, 2008). Despite the importance of the audit services provided by Big 4 auditors, prior research does not study how audit quality differs between Big 4 and non-Big 4 auditors. Francis (2004) reviews the US evidence on audit quality. Audit quality is influenced by auditor incentives, which are affected by the institutional environments in which auditors work. Jenkins and Velury (2008) examine whether auditor tenure affects accounting conservatism and earnings management. Moreover, they find that earnings conservatism is positively associated with the length of the auditor –client relationship. Thus, this study adds to the literature on audit quality in order to complete and respond to a call for further research in this direction included only the consolidated and parent company accounts.

Furthermore, according to Goncharov et al (2009) earnings management in single accounts is driven by tax considerations. Moreover, Goncharov et al (2009) found that the factual role of single accounts is to provide the basis to compute taxable income. They underline that single accounts point to taxes as the primary driver of incentives for preparing financial statements. Additional, they found that earnings management and unconditional conservatism are driven by taxation; make single accounts meet reporting demands in contrast with group accounts. LaFond and Watts (2008) argue that accounting conservatism can reduce manager's incentives and ability to manipulate accounting numbers and so reduce information asymmetry. They find that firms with more information asymmetry demand more accounting conservatism in financial reporting.

Whether accounting conservatism is a desirable attribute of financial statements is a long-standing issue in the accounting literature. Extensive research has shown evidence of conservative reporting in the USA, the UK and other European countries. Watts provides interpretations of the empirical findings of time series and cross-sectional variation in accounting conservatism based on contracting, litigation, taxation and accounting consideration. Moreover, Ball and Shivakumar (2005) investigate the effect of accounting on the quality of reporting earnings using different approaches. Francis et al (2005) focus on the relationship between earnings quality and the cost of equity capital. They view firms with higher degrees of conservatism as higher earnings quality firms, possibly to have lower costs of equity capital.

The earning attributes like predictive ability of earnings, earnings management, value relevance, timeliness and conservatism can measure the aspects of desirability in order to make decision (Francis et al, 2003; Lang, Raedy & Wilson, 2006: Lang ,Raedy & Yetman, 2003). Earnings management has attached considerable academic attention because it is an important item about the greater action of a firm. Managers enter to earnings management for their remuneration package (Healy, 1985). Other researchers have found that earnings management occurs to meet company forecasts or analyst forecasts (Kaznik, 1999).

The earnings management is characterized as accounting-based because it uses accounting data as input variables but the conservatism is market-based because it shows a relationship between accounting and market data (Cheng and Liu, 2006). Cheng and Liu (2006) and Cheng and Hollie (2008) examine the value-relevance of earnings for conservative and non conservative firms using total accruals, working capital and non-operating accruals as proxies for accounting conservatism. They find that conservative firms have lower earnings response coefficients than non-conservative firms due to the fact that conservative firms have lower quality accruals and less smooth earnings streams than non-conservative firms. Moreover, Francis et al (2005) show that accounting conservatism is an important attribute for improving the efficiency of debt and other contracts. According to Watts (2003) conservative accounting is possibly to reduce the possibility of managers managing earnings to increase their own utility at the expense of other shareholders in the firm.

First of all, as far as large consolidated accounts, the findings show that they borrow more in order to satisfy their obligations. Furthermore, the study shows that large consolidated accounts generate more efficiently the profits from assets. However, the financial structure of small consolidated accounts is better than large consolidated accounts. As far as the parent company accounts, study investigates that large parent company accounts have a greater company performance as small. Moreover, consolidated accounts audited by Big-4 auditors control their profitability more effectively. However, parent company accounts that audited by Big-4 auditors are less profitable and they have less good financial structure. In addition, the findings report that consolidated accounts with smaller size, lower profitability and high total liabilities to shareholder's funds engage more in earnings management. Finally, the study provides evidence that parent company accounts reinforce the contracting efficiency and validity of reported financial numbers, thereby increasing accounting conservatism (see also Iatridis, 2011).

Conclusively, the examination of the existence and the intensity of the implicit relationship between consolidated and parent company accounts, for a certain number of UK listed firms, is the topic of this final dissertation's research field, the spine of which is apposed right infra.

1.2 Dissertation outline

The structure of the rest of dissertation essay is as follows. Section 2 presents the theoretical background of the study. Section 3 furnishes the research hypotheses that are tested. Section 4 describes the research methodology. Section 5 accords the empirical study and research findings and Section 6 administers the conclusions and recommendations of the study. Finally, Section 7 comprehends the reflection on learning.

2. Supporting Literature Review

Financial statements provide information about the reporting entity's financial information and financial position. It is useful for assessing the stewardship of entities and making economic decisions (Eccles and Holt, 2005). Moreover, the objective can be met by focusing on the information needs of present and potential investors. They evaluate the entity's ability to generate cash and assessing the entity's financial adaptability (Eccles and Holt, 2005).

2.1 Consolidated and Parent Company Accounts

Foreign company exposures

Accounting research requires that a company consolidate a subsidiary when the company has a controlling interest in subsidiary (Chasteen, 2005). A controlling interest means that a company owns a majority (greater than 50%) of the voting common stock of subsidiary. Thus, the company has the greatest risks and rewards/losses and gains associated with ownership (Chasteen, 2005). Moreover, the risks of subsidiaries are dispersed among the common stockholders in proportion to their percentage of ownership (Chasteen, 2005).

Multinational Corporations have a number of subsidiaries in various foreign countries. MNEs set abroad subsidiaries; overseas operations support the parent company and all strategic thinking (Manopoulos, 2010). According to Manopoulos (2010) "MNEs is an organization where a dominant parent company creates and controls all sources of competitive advantage and a network of subsidiaries supply their national markets with standardized products and process technology". Tavares and Pearce (1999) suggest that if a subsidiary is set up as a replica of the parent operations, the key advantages are likely to have been the host country market.

A substantial portion of many foreign subsidiaries' financing, investing and marketing activities is done in foreign environment (Holt, 2003). When companies invest abroad, they usually introduce their management practices with production technology into less developed courses (Holt, 2003). Inevitably, the basic difficulty of this investment is the problems with the culture of the other countries. Thus, subsidiaries face serious problems and pressures from the parent firm and local environment (Rosenzweig and Singh, 1991). The parent firm allows the policies within each subsidiary to develop according to local values and practices (Taylor and Beechler, 1993: Taylor, 1986). Moreover, they told that the parent firm can attempt to integrate policies between the parent firm and its subsidiaries.

Thus, when subsidiaries react in the abroad, they have to face problems with the adaptation from the local environment and global incorporation (Sauers et al, 2009: Holt, 2003). According to Sauers et al (2009) "while the globalization of organizational practices seems economically logical in order to increase transnational coordination and efficiency, the heterogeneous institutional, cultural and organizational contexts in which the foreign subsidiaries operate, require the local adaptation of organizational practices, thus, legality and acceptance by local shareholders can be maintained".

However, a basic problem of foreign currency translation and consolidation begins with the recasting of a foreign subsidiary's financial statement from foreign GAAP to US GAAP (Holt, 2003). For example, US users cannot analyze the recast statements without reference to the foreign environment (Holt, 2003). Differences in business environments are often substantial and are reflected in the individual firm's financial statements (Holt, 2003: Iqbal, 2002: Mueller et al, 1994). Switching to one GAAP to another does not solve this interpretation problem (Iqbal, 2002). In fact, recasting from foreign GAAP is likely to destroy relationships that are meaningful in the foreign environment (Holt, 2003).

The accounting profession has assumed for decades that the accounts of foreign subsidiaries should be translated and consolidated with those of parent company (Mueller et al, 1994). The parent company accounts must reflect ownership interests. In a consolidation format the information from financial reporting can be better achieved through the use of the equity method of presenting investments in the subsidiary, the interest in the earnings of it and the dividends receivable by the parent (Holt, 2003). It is a task that is impossible to perform without substantial loss of information value (Iqbal, 2002). However, there is another choice. Holt (2003) suggests the above: "if the profession abandons the consolidation of foreign accounts with those of parent consolidated statements consisting of the parent companies and domestic subsidiaries' numbers will contain more usable information and will be far cheaper to produce".

2.2 Audit Quality and Audit practitioners

Watts and Zimmerman (1986) define the audit quality as the joint probability that a given auditor will both discover a breach in the client's accounting system and report the breach. However, the evidence of audit quality is not observable by those of outside of the accounting firm; accounting research relies on ex post indicators to identify the occurrence of an audit failure (Watts and Zimmerman, 1986).

A lot of surveys have become in the direction of auditor choice. It is very important for the firms which would like to participate to mergers (Louis, 2004). Moreover, Johnson and Lys (1990) find that the decision on an acquisition is depended on the firm's decision to go to a larger auditor. Watts and Zimmerman (1986) remark that the auditor quality is associated with the relevance of the auditor's report examines relationships and breaches of contracts. Moreover, Bartov et al (2001) suggest that the auditors with higher quality prefer to report failures and defaults and do not agree to accept some accounting practices. According to Becker et al (1998) high quality auditors are expected to be more likely to detect the practice of earnings management.

Furthermore, specialist auditors are likely to invest more in human resource management, information technology, and other audit technologies than non-specialist auditors (Watts and Zimmerman, 1986; Becker et al, 1998). Furthermore, it is also accepted that quality of audit is different among audit firms (Francis et al, 2004). For example, Big 4 audit firms provide higher quality than non-Big 4 audit firms (Watts and Zimmerman, 1986; Becker et al, 1999; Caneghem, 2004). According to Louis (2004), Big 4 auditors have strong motives to provide or maintain a high audit quality due to the fact that they have a great number of clients, more opportunity to deploy significant resources to auditing like human resource management, information technology, and final more possibility to lose when they do not report a discovered breach (Cheng and Hollie, 2008; Caneghem, 2004).

Additionally, the non-Big 4 audit have comparative advantages in merger and acquisitions (Peale, 1994). Moreover, while the Big 4 audit firms have more expertise in merger and acquisitions activities, the non-Big 4 firms have more experience with held companies (Louis, 2004). However, prior research has found a lot of differences in firms which audit for Big 4 auditors and them which don't audit for Big 4 auditors.

Numerous studies support that Big 4 auditors serve as an earnings management constraint. Becker et al (1999) show that the number of clients of Big 4 auditors that report DAC (discretionary accruals) is smaller than the DAC that reported by clients of non-Big 4 auditors. Moreover, Krishnan (2003a) documents that Big 4 auditors are able to constrain aggressive and opportunist reporting of DAC by their clients compared to non-Big 4 auditors. Francis et al (2005) argue that even though clients of Big 4 firms report higher level of total accruals, they have lower amounts of DAC. Core et al (2008) based on UK listed firms; suggest that in case a high level of non-audit services is provided, Big 4 firms are more able to constrain earnings management than their counterparts. According to Chen et al (2005) Big 4 auditors are associated with less earnings management. Finally, Bauwhede et al (2003) report that the superior performance of Big 4 over non-Big 4 auditors is in the case of income increasing earnings management.

2.3 Earnings Management

a. The definition and detection of earnings management

The first definition on earnings management was given by Schipper (1989) who defined it as "….purposeful intervention in the external financial reporting process with the intent of obtaining some private gain". Several presentations on earnings management use the term in connection with managerial discretion that has the aim to communicate information to investors that is supposedly not opportunistic (Dechow and Skinner, 2000 : Scott and Liu, 2009). Moreover, earnings management is the process of taking deliberate actions within the constraints of general accepted accounting principles (GAAP) so as to bring about a desired level of reported earnings (Koumanakos et al, 2005). Alternatively, according to Healy and Wahlen (1999) earnings management happens when managers change the financial reports in order to either mislead stakeholders about the company economic performance or picture or to influence outcomes that are associated with reported accounting numbers.

Furthermore, earnings management is an activity where managers use their discretion to mislead stakeholders about the economic performance of the company or to influence contractual outcomes (Healy and Wahlen, 1999). Moreover, according to Schipper (1989) and Healy and Wahlen (1999), another earnings management definition could include estimations like long-tem assets, losses from bad debt which could be influenced by the accounting choices and methods. In addition, Healy and Wahlen (1999) holded with Schipper (1989) that earnings management is not necessary to be connected through reported earnings but other accounting numbers can influence it.

Because earnings management has the propensity to deceive, it is likely to be difficult to detect (Healy and Wahlen, 1999). The early studies on the topic tested the connection between managerial incentives and choices of different accounting methods (Watts and Zimmerman, 1986: Hagerman and Zmijewski, 1979). Bartov et al (2001) note that agency costs include manager's incentives to manage earnings. Empirical evidence from agency theory reports management has a preference for managing earnings numbers in order to benefit from the contracting process (Holthausen et al, 1995) However, changes in accounting methods are relatively easy for outsiders to detect and therefore have limited success in misleading those (Chen et al, 2005). However, the most researchers, in order to detect the earnings management, use the method of accruals especially the discretionary accruals (Haw et al, 2001: Tendelloo and Vastraelen, 2005: Iatridis, 2008).

b. Earnings management and auditor quality

Healy and Wahlen (1999) argue that earnings management occupies when managers manipulate shareholders about the underlying economic performance of the company or influence outcomes that depend on reported accounting numbers. It means that managers engage in earnings management or convey information about the firm's future performance (Christie and Zimmerman, 1994). However, the relation between accounting earnings and the firm's performance is not stable over time (Christie and Zimmerman, 1994: Kim and Kross, 2005).

According to Jackson and Pitman (2001) the practice of earnings management erodes investor's confidence in financial reporting quality and impedes the efficient flow of capital in financial markets. Economic theory suggests that audit firms must differentiate themselves (Watkins et al, 2004). Some researchers second support that specialization perhaps makes the audit firms to differentiate (Beasley and Petroni, 2001). Moreover, they suggest that specialization enables the auditor to provide superior services. Furthermore, Krishnan (2003a) argues that the auditor is able to conduct a more effective audit enhancing the ability to detect earnings management.

Auditors tend to involve in earnings management procedures in order to manipulate accounting procedures and find which of these procedures acceptable (Krisman, 2003a) are. However, auditors try to use more conservative choices in contrast with the main idea of management which wish to use less conservatism choices either for earnings management or other reason of accounting (Heninger, 2001).

Arens et al (2008) suggest that auditing financial statements maybe reduce the information risk and improve the decision making. The process of audit determines whether the figures reported in financial statements presents the firm's results and the true financial position of the firm (Arens et al, 2008). Chi-Ying et al (2008) argue that an improving audit quality provide assurance about the accuracy of reported accruals in contrast a poor quality audit would impair the quality of earnings and discretionary accruals.

Improved quality is an investor tool for estimating the value of traded securities (Johnson et al, 2002). Moreover, these authors told that it is a function of not only the auditor's detection of material misstatements but also the auditor's behavior towards detection. The model of audit quality describes audit quality as the combination of two probabilities: that of detecting misstatement and that of reporting. According to Johnson et al (2002) if the auditor improve the material misstatements the result would be higher audit quality, while if auditor fail to correct the misstatements obstructs the improvement of audit quality. Some findings of researchers show that audit firm rotation have adverse effects on the quality of earnings and the accruals reported. However, on the other hand, some studies failed to establish evidence on the audit rotation effectiveness (Carcello and Nagy, 2004: Davis et al, 2009: Davis and Simon, 1992). Finally, Myers et al (2003) provided evidence that earnings management is less of a concern for auditors in longer audit firm tenures. Similarly, Davis et al (2003) inferred that management gains additional flexibility with process in auditor tenure.

c. Value relevance of accounting earnings

Usually, managers and analysts give attention to the earnings of value relevance, the ability of financial statements to provide information that affect stock price movements and assist investors to assess the value of firm. One explanation of the association between earnings and stock prices is the present value of future cash flows (Brown et al, 1999). A basic problem which was called to face the researchers was the fact that the fair values of assets are dependent from managers' competence and discretion (Scott and Liu, 2009). Prior research show that managers try to manipulate accruals in order to report earnings through the flexibility accorded under various GAAP (Givoly and Hayn, 2000). Moreover, managers use their knowledge of the firm financial position in order to make improvements to accruals (Givoly and et al, 2007).

According to Kim and Kross (2005), relevance is the ability of current earnings to predict future cash flows and reliability is the ability of current earnings' to predict future earnings (Richardson et al, 2005). Moreover, the value of a company are associated with its ability to generate cash flows (Kim and Kross, 2005).The basic intention of financial statements is to provide specific information in order to help investors, creditors and shareholders in assessing the amount of future cash flows (Kim and Kross, 2005). Moreover, Kim and Kross (2005) examine earnings and operating cash flows from 1973 to 2000 and they suggest that the ability of current earnings to predict future cash flows has increased over the same period. The result of this study was that the usefulness of earnings is related to reliability but not to relevance (Kim and Kross, 2005). A lot of studies focus on the market of United States or United Kingdom and they investigate whether accruals add information to react on operating cash flows in order to improve earnings management. The results of these studies were in contrary. Some researchers find that cash flows and accruals have incremental information (Cheng and Liu, 2006: Dechow et al, 1998) but others find a little evidence as far as the incremental information is concerned (Bernard and Skinner, 1996). Earnings and accruals process is an important item and it has expressed by regulators. According to FASB 1978 Statement of Financial Accounting

Concepts No 1 shows that when earnings are measured by accruals could provide a better indication of firm performance (Dechow et al, 1998).

Harris et al (1994) and Niskanen et al (1998) inquire into the role of single accounts by assessing the effect of consolidation on the value relevance of the accounting earnings. LaPlaute, Hanlon and Shevlin (2005) found that book income explains a larger proportion of stock returns than taxable income. Moreover, LaPlaute, Hanlon and Shevlin (2005) show that book income exhibit a higher explanatory power for future earnings and cash flows. Goncharov et al (2009) consider “the ability of earning to predict future earnings and cash flows, earnings management measures and the timeliness of earnings”. Moreover, the timeless of earnings influences accounting quality and decision usefulness (Goncharov et al, 2009: Givolvy and Hayn, 2000). A timely recognition of all elements of economic income in financial statement makes them more useful to investors and creditors (Ball and Shivakumar, 2005). Managers are interested in sustaining an attractive earnings growth and analysts are interested in providing useful and reliable information for investors (Dimitropoulos, and Asteriou, 2008).

Harris et al (1994) and Niskanen et al (1998) show that the attributes of consolidated and parent company accounts earnings differ with consolidated accounts being more value relevant. Value relevance can be regarded as a measure for decision usefulness as high value relevance of earnings points to financial statements being perceived as relevant and reliable (Barth et al,1999). For this reason, it is used from market participants for economic decision making. Goncharov et al (2009) predicted that value relevance would be higher in consolidated accounts as the primary information source for market participants (Harris, Lang and Moller, 1994).

d. The utility of earnings management to investors

Manipulation of accounts is an old accounting problem that goes back in the 1920s (Naser, 1993). Moreover, it stems of the conflicting interests of shareholders and managers (Naser, 1993). The most prevalent terms used to describe the problem are creative accounting and earnings management. However, there is no agreement in the way that these terms are defined (Healy and Wahlen, 1999).

A great deal of literature on earnings management assumes it is driven by the stock price impact. Earnings management has been found in connection to financial transactions for example, equity offerings (Teoh et al, 1999) and management buy-outs (Perry and Williams, 1994). Managers may smooth income to make the firm appear a less risky investment than it really is (Titman and Trueman, 1986) or manage earnings to meet analyst's expectations (Kaszink and Lev, 1995). In addition to asset pricing motives, earnings management can be driven by contracts written in terms of accounting numbers, such as bonus contracts (Healy, 1985) or debt covenants (Defond and Jiambavlo, 1994) and by the attempt to reduce political costs (Jones, 1991). Some researchers have found that earnings management occurs to meet company forecasts (Kasznik, 1999) or analysts' forecasts (Burgstahler and Eames, 1998). Other studies examined the incentives of managers to manipulate earnings in an attempt to avoid debt covenant constraints (Defond and Jiambavlo, 1994), to smooth income (Moses, 1987), to protect firms from political costs (Han and Wang, 1998), to protect the ownership control of firms (Perry and Williams, 1994) and to influence various capital market participants. Moreover, Teoh et al (1999) provide evidence that managers inflate earnings prior to seasoned equity offerings and initial public offerings maintain dividend payout rates at levels where distribution of dividends are on concern.

According to Jones (1991) earnings management helps investors in assessing the reliability of companies' financial statements when they consider investment

opportunities. Obviously, it would be great benefit for investors if they could determine directly from the financial statements if earnings have been managed or not. The increased understanding of managers' motivations to use earnings management may also be useful for regulators and auditors when they try to restrict opportunistic behavior (Kasznik, 1999). The importance of accounting earnings in firm valuation has been increasing in recent years (Bernard, 1995). Earnings management affects firm value in three ways according to Ohlson (1995). First of all, the positive component of managed earnings directly increases book value and firm value by the same amount. Moreover, the managed earnings are likely to affect the estimated future abnormal earnings through Ohlson's (1995) information dynamics. Finally, earnings management may affect firm value through the cost of capital. Moreover, Ohlson (1995) assume a risk free discount rate but when analyzing firms in real life the choice of the appropriate risk premium crucially affects the obtained valuation. The proper discount rate being the cost of capital for the firm is usually positively connected to the volatility of the firms' earnings (Ohlson, 1995).

Theoretical and empirical studies demonstrate that predictable earnings increase the association of earnings and stock price (Lipe, 1990). According to Sloan (1996), the only function of consolidated accounts is unconstrained by tax and payout considerations which may interfere with the in formativeness of single account. Goncharov et al, (2009) found that earnings management in single accounts is mainly driven by tax considerations. Earnings management and unconditional conservatism are driven by taxation (Goncharov et al, 2009). Managers can hide true economic performance through earnings management and make earnings a looser indicator for monitoring and valuation purposes (Cornell and Liu, 2001). In contrast, consolidated accounts' properties indicate that they seem to perform better in fulfilling economic demands. Furthermore, consolidated accounts are timelier and conditionally more conservative while showing lower levels of earnings management and unconditional conservatism (Goncharov et al, 2009: Cornell and Liu, 2001).

2.4 Accounting Conservatism

Accounting conservatism is a pregnant issue in the accounting literature. A lot of surveys have become in the direction of accounting conservatism in the USA, the UK and other European countries. Conservative accounting recognizes losses as they are discovered, but defers gains until they are verified (Givoly and Hayn, 2000). In accounting earnings bad news is more timely reflected that good news (Givoly and Hayn, 2000). Regulators and academics underline that firms use the conservative accounting in order to manage earnings (Penman, 2001). Moreover, according to Penman (2001) when a balance sheet is designed with conservative accounting, produces higher profitability. Furthermore, accounting conservatism can reduce agency problems arising from manager's opportunistic use of accounting discretion (Chen et al, 2005).

Conservatism is an important convention of financial reporting. It implies the exercise of caution in the recognition and measurement of income and assets (Givoly and Hayn, 2000). According to Givoly and Hayn (2000) a typical definition of conservatism is that it is the rule whereby "when there is a genuine doubt concerning which of two or more reporting alternatives should be selected the alternative with the least favorable effect upon owner's equity should be chosen" (Smith and Skousen, 1987). According to Basu (1997) conservatism has been a qualitative characteristic of financial reporting for a lot of years and has been a serious subject for research. The issue of conservatism is tied to the debate about whether the current level of stock prices represents a "bubble" (Givoly and Hayn, 2000). A finding of increased conservatism will put on another proportion to the research examining manager's opportunistic behavior in financial reporting. Specifically, such a finding would suggest that the relative weight of reporting considerations such as political costs, compensation incentives and the capital market response vary over times (Watts and Zimmerman, 1978).

Prior research examines the economic determinants of accounting conservatism. Ahmed and Duellman and Ahmed (2007) find that board governance quality is positively associated with accounting conservatism. Garcia et al (2009) document a positive relationship between accounting conservatism and a composite measure of corporate governance quality. Moreover, LaFond and Watts (2008) argue that accounting conservatism can reduce the manager's incentives and ability to manipulate accounting numbers and to reduce information asymmetry. They discover that firms with more information asymmetry demand more accounting conservatism.

Jenkins and Venure (2008) examine whether auditor tenure affects accounting conservatism. LaFond and Watts (2008) find that accounting conservatism increases in information asymmetry between managers and outside investors. Their findings suggest that firms with high information asymmetry have a higher demand for conservatism in financial reporting.

Conservatism has been an important accounting principle for centuries (Basu, 1997: Watts and Zimmerman, 1986). Moreover, Zhang (2007) examine the contracting benefits of accounting conservatism to lenders and borrowers. According Zhang (2008) accounting conservatism benefit lenders ex post but benefit borrowers ex ante. However, the first who examine the debt contracting process was Watts and Zimmerman (1986).they focus on the use of accounting choices in order to avoid covenant violations. Watts (2003) explains that the demand for conservatism results from the contracting role of accounting. In addition, Ahmed and Duellman (2007) shows that more conservative borrowers receive better dent ratings. Two important reporting features of conservative accounting are asymmetric timeliness in recognition of accounting gains versus losses (conditional conservatism) and systematic understatement of net assets (unconditional conservatism) (Givoly et al, 2007).

Goncharov et al (2009) predict that single accounts display higher levels of unconditional conservatism than group accounts. However, only conditional

conservatism can improve contracting efficiency as it relates to disclosures of difficult to verify accounting information (Basu, 1997). It means that firms with higher contracting costs would incorporate conditional conservatism in their financial reporting process as opposed to unconditional conservatism (Qiang, 2007). Thus, conditional conservatism reinforces the value relevance of and information usefulness of reported accounting numbers (Qiang, 2007). It means that conservatism accounting would facilitate monitoring of managerial behavior as well as efficient corporate governance mechanisms, since monitoring by board members, financial analysts, investors and other stakeholders would make managers more careful when producing veritable accounting information (Beekes et al, 2004: Garcia Lara et al, 2009 :Guay and Verrecchia, 2007).

The manager's reputation, remuneration and future in the company and the company's share price are to a large degree affected by the company's published financial statements and accounting-based contracts (LaFond and Watts, 2008). Firms would have different motives for conditional and unconditional conservatism. It follows that conditional and unconditional conservatism cannot be regarded as substitutes (Basu, 2005). In contrast, they may be negatively related (Qiang, 2007). Unconditional conservatism anticipates future bad news and may be applied in a manner so as to meet the firm's managerial objectives before the event, on the accruals that are independent of good or bad news among high and low accounting quality disclosures (Beaver and Ryan, 2005). Thus, depending on managerial motives, the restriction of earnings management or unconditional conservatism practices would vary and would have differential effects on financial reporting quality (Beaver and Ryan, 2005). Conservatism is not be driven only by the firms efforts to reinforce the quality of their reported numbers but also by factors that are of high quality, such as size, stock market visibility and analyst following leverage, litigation and agency costs and growth (Cano-Rodriguez, 2010). In countries with strong investor protection mechanisms, such as the UK, conditional conservatism would be more evident (Francis and Wang, 2008).

Thus, it is well known that the degree of accounting conservatism differs across countries and according to preparers' incentives (Ball and Shivakumar, 2005: Ball et al, 2003). Moreover, there are many studies that investigate the accounting conservatism. Basu (2005), Givoly and Hayn (2000), Holthausen and Watts (2001), and Ryan and Zarowin (2003) analyze the change in conditional conservatism over time. Ball et al. (2003), Giner and Rees (2001), and Bushman and Piotroski (2006) make international comparisons of the degrees of conservatism across different accounting systems. Furthermore there are many papers that study conditional conservatism like Krishnan (2005), Huijgen and Lubberink (2005), and Sivakumar and Waymire (2003). Recently, a great deal of research examines how corporate governance affects reporting conservatism (Ahmed & Duellman, 2007; LaFond & Roychowdhury, 2008). In addition, Zhang (2008) shows that conditional conservatism is beneficial for lenders because of "the timely signaling of default risk" and moreover it is beneficial for borrowers because of the lower interest rates. Thus, the issue of conservatism is very important for the researchers because its results influence the decisions of the partners of firms.

3. Research Hypotheses

3.1. Company Size

The introduction of the International Accounting Standards (IAS) forced companies to calculate assets at their real market value, while credit all intangibles (IFRS, 2008). Despite that, the inability of most companies to comply with IAS deteriorates the recognition of intangible assets of every organization (Judge and Pinsker, 2010). In other words the market estimates the value of companies with the intangible assets (Judge and Pinker, 2010).

"The market value of a company should be a forward looking indicator of corporate performance reflecting the discounted sum of future dividends, which should be

closely related to the discounted sum of future profits including outcomes of patents" (Chen and Chang, 2009). Market size refers to the distribution of market shares of different classes of firms in a local market (Becker et al, 1998). Researchers are interested in market size because of the extensive evidence linking higher prices to more concentrated markets (Chen and Chang, 2009). The hypothesis that is tested is as follows.

H_1: Small consolidated accounts are likely to be significant different than large consolidated accounts as far as the firms' market value is concerned. The alternative hypothesis is that small consolidated accounts are not significant different than large consolidated accounts.

Another hypothesis in the same subject is the above.

H_2: Small parent accounts are likely to be significant different than large parent accounts. The alternative hypotheses is that small parent accounts are not significant different than large parent accounts.

To test H_1 and H_2, the study seeks to identify proper criteria for separating the sample firms (367 firms) in large and small firms. Based on quantity of disclosed accounting information, the distinction between those firms that are large and those that are small is performed based on market value of the firm. Moreover, market value is measured by total assets. Moreover, to test H_1 and H_2, the median of total assets comprised the distinction determinant. Based on basic accounting information, such as the basic financial statements (especially total assets) the large consolidated accounts are 224 out of 367 in contrast with small consolidated accounts that are 143 out of 367. Moreover, large parent company accounts are 184 out of 367 in contrast with small parent company accounts that are 183 out of 367.

This study presents a model for identifying the financial performance of parent company accounts and consolidated accounts. In this paper financial ratios are used in order to describe and predict the financial performance of the firms and the relation between ratios and parent company accounts or consolidated accounts. Beaver et al (2000) uses the financial ratios as predictors of failure and defaults for accounting and shows that the ratios can only be examined in order to find some particular purpose. However, this is not the only use of ratios; “it is a starting point to build an empirical verification of ratio analysis” (Atril and McLaney, 2006). Finally, ratios can be very helpful when comparing the financial position, or structure of a variety of businesses.

As for the empirical analysis, it is concentrated on the accounting period 2005-2008. Concerning the methods for data analysis used hereupon, the standard deviation and the correlation coefficient are employed, so as to note the differences between large and small firms, regarding their total assets. Finally, the binary logistic regression is utilized, as a means of tracing the interrelations between the dummy variable (the dependant variable), which is dichotomous and takes two variables, in particular 0 for those firms that are small according the median of total assets and 1 for those firms that are large, and specific explanatory variables along with a variety of financial ratios (the independent variables.

Based on the categorization presented above, the study implements a logit model which is based on Iatridis (2008) model and presented below:

$$SVi,t = a_0 + a_1\, Profitabilityi,t + a_2\, Growthi,t + a_3\, Leveragei,t + a_4\, Liquidityi,t + a_5\, Investmenti,t + e_{i,t} \quad \textbf{(1)}$$

where :

$SV_{i,t}$ is a dummy variable indicating the large or small consolidated accounts and the large or small parent company accounts

SVi,t = 1 for large consolidated or parent company accounts and

SVi,t = 0 for small consolidated or parent company accounts.

$Profitability_{i,t}$
$Growth_{i,t}$

$Leverage_{i,t}$ $Liquidity_{i,t}$ $Investment_{i,t}$	are proxies used to control for firm profitability, growth, leverage, liquidity and investment respectively
$e_{i,t}$	is the error term

3.2. Big 4 auditors and non-big 4 auditors

Big 4 and non-Big 4 auditors are important since they are the only audit practitioners who audit the financial statements of companies (Jenkins and Krawczyk, 2001). Big 4 auditors audit most of the large companies (Shafer et al, 2001), while non-Big 4 auditors audit medium and small firms. Moreover, auditors are commercially sophisticated people (Canning and Gwilliam, 1999) and generally possess good accounting knowledge with which to interpret the independence concept rather than users (McKinley et al, 1985).

A lot of surveys have shown that the auditor choice can affect the results of a firm. According to Louis (2004), the Big 4 auditor firms have more resources than the non-big 4 audit firms and provide better quality audit. However, in the area of merger and acquisitions, non-big 4 audit firms have more comparative advantages (Louis, 2004). Non-big 4 audit firms have a superior knowledge of the local markets and have close and long-time connections with local communities (Hunt and Lulseged, 2007). While, the Big 4 audit firms have more expertise in merger and acquisition activities, the non-big 4 have more experience with the privately held companies (Louis, 2004).

H_3: The consolidated accounts that audited by Big 4 auditors are likely statistically different than those that are not audited by Big 4 auditors. The alternative hypothesis is that the consolidated accounts that audited by Big 4 auditors are not statistically different than those that are not audited by Big 4 auditors.

Another hypothesis to the same direction is the above.

H_4: The parent company accounts that audited by Big 4 auditors are likely statistically different than those that are not audited by Big 4 auditors. The alternative hypothesis is that the parent company accounts that audited by Big 4 auditors are not likely statistically different than those that are not audited by Big 4 auditors.

To test H_3 and H_4, the study seeks to identify proper criteria for separating the sample firms (367 firms) in those that audited by Big-4 auditors (consolidated or parent company accounts) as opposed to those that did not (consolidated or parent company accounts). In the same direction, the study seeks to find something different in financial ratios to firm that audit by Big-4 and those that did not. Based on both quality and quantity of disclosed accounting information, the distinction between firms that audited by Big-4 auditors and those that did not is made as follows. Based on basic accounting information, such as the basic financial statements, reports and notes, firms that audited by Big-4 auditors are 237 out of 367 in contrast with those that did not that are 130 out of 367 either consolidated or parent company accounts.

In addition, empirical analysis is concentrated in period 2005-2008. Finally, the binary logistic regression is utilized, as a means of tracing the interrelations between the dummy variable (the dependant variable), which is dichotomous and takes two variables, in particular 0 for those firms that are audited by Big-4 auditors and 1 for those firms that did not be audited by Big-4 auditors, and specific explanatory variables along with a variety of financial ratios (the independent variables).

Based on the categorization presented above, the study implements a logit model which is based on Iatridis (2008) model and presented below:

$$BFi,t = a_0 + a_1\, Profitabilityi,t + a_2\, Growthi,t + a_3\, Leveragei,t + a_4\, Liquidityi,t + a_5\, Investmenti,t + e_{i,t} \quad \textbf{(2)}$$

where :

$BF_{i,t}$ is a dummy variable indicating the firms that audited by Big-4 auditors or not either consolidated or parent company accounts.

BFi,t = 1 for firms audited by Big 4 auditors either consolidated or parent company accounts and

BFi,t = 0 for firms not audited by Big 4 auditors either consolidated or parent company accounts.

$Profitability_{i,t}$
$Growth_{i,t}$
$Leverage_{i,t}$ are proxies used to control for firm profitability, growth, leverage,
$Liquidity_{i,t}$ liquidity and investment respectively
$Investment_{i,t}$

$e_{i,t}$ is the error term

3.3 Earnings Management

Earnings management and manager's selection of accounting procedures have received a large amount of attention in the accounting literature. In their effort to avoid breaching debt covenants which affect the company market picture, firms resort to earnings management (Hirshleifer et al, 2004). Moreover, managers use the earnings management techniques in order to enhance their compensation arrangements and wealth (Hirshleifer et al, 2004). Furthermore, managers provide voluntary accounting disclosures in order to inform third parties about the financial picture of the firm (Iatridis, 2011).

When a financial statement is studied accruals and specific ratios need to be taken into consideration. For example, financial leverage is an instrument that gives very important information. It gives information about the capital structure of the firm and the ability to meet its obligations and debt covenants (Press and Weintrop, 1990).

Whatever changes comes to operating the activities affect the financial leverage and capital structure. Moreover, changes to the financial leverage drive to changes in firm financial performance (Myers and Majluf, 1984). Thus, the parent company accounts reflect to earnings management the same as consolidated accounts? The hypothesis that is tested is as follows.

H_5: The parent company accounts and the consolidated accounts reflect different levels of earnings management. The alternative hypothesis is that the parent company accounts and the consolidated accounts don't reflect different levels of earnings management.

Empirical analysis is concentrated on the accounting period 2005-2008.
The study uses an Ordinary Least Square (OLS) regression to determine the association between discretionary accruals (the dependent variable) and specific explanatory variables (the independent variables). Prior research indicates that accrual earnings play an important role in the valuation process inherent in cash flow measures of firm performance (Dechow et al, 1998). Accruals are useful and reliable; managers can manipulate the accruals in order to alter reported earnings through the flexibility accorded under accepted accounting principles (Han and Wang, 1998). Moreover, prior researches focus on the market of United States or United Kingdom and they examine whether accruals and information to cash flows improve earnings ability to explain returns (Han and Wang, 1998). This study examines the relation of earnings, operating cash flows and accruals in the emerging market of United Kingdom. The regression model that is used is based on Tendeloo and Vanstraelen (2005) and is as follows (Iatridis, 2008).

$$DACi,t = a_0 + a_1\, DVi,t + a_2\, DVOCFi,t + a_3\, DVLNTAi,t + a_4\, DVOPMi,t + a_5\, DVTLSFUi,t + a_6 OCF_{i,t} + a_7 LNTA_{i,} + a_8 OPM_{i,t} + a_9 TLSFU_{i,t} + ei,t \quad \textbf{(3)}$$

where DACi,t is the discretionary accruals that are estimated using the cross-sectional

Jones model (Jones, 1991). The study uses the residuals of the following regression model as discretionary accruals (see also Bartov et al, 2001; Kothari et al, 2005; Garza-Gomez et al, 2006: Iatridis, 2008),

$$ACi,t = a_0 (1/Ai,t-1) + a_1 \Delta REVi,t + a_2 PPEi,t + ei,t \quad \textbf{(4)}$$

where ACi,t is accruals in year t scaled by total assets, i.e. total assets. Accruals equal the annual change in current assets (excluding cash) minus current liabilities (excluding short-term debt and income tax payable) minus depreciation,

Ai,t-1 is total assets in year t,

ΔREVi,t is the annual change in revenues in year t scaled by total assets,

PPEi,t is property, plant and equipment in year t scaled by total assets,

ei,t is the error term.

DVi,t is a dummy variable indicating the consolidated and parent company accounts

DVi,t = 1 for consolidated accounts and

DVi,t = 0 for parent company accounts.

DVOCFi,t is a variable used to examine the impact of consolidated accounts on the association between discretionary accruals and cash flows. It is the multiplication of DV and operating cash flows (OCF),

DVLNTAi,t is a variable used to examine the impact of consolidated accounts on the association between discretionary accruals and size. It is the multiplication of DV and the natural logarithm of total assets

DVOPMi,t is a variable used to examine the impact of consolidated accounts on the association between discretionary accruals

and profitability. It is the multiplication of DV and operating profit margin (OPM),

DVTLSFUi,t is a variable used to examine the impact of consolidated accounts on the association between discretionary accruals and leverage. It is the multiplication of DV and total liabilities to shareholders' funds (TLSFU).

Finally, the binary logistic regression is utilized, as a means of tracing the interrelations between the dummy variable (the dependent variable), which is dichotomous and takes two values, 0 for parent company accounts and 1 for consolidated accounts, and specific explanatory variables along with a wide variety of financial ratios (the independent variables). Thus, the study examines firm's earnings management goals, such as to manage accounting numbers in order to report small profits rather than losses, or influence the speed by which losses are recognized (Burgstahler and Dichev, 1997 : Leuz et al, 2003, Iatridis, 2008), as expressed by SPi,t and LLi,t respectively in the logit model below.

$$DVi,t = a_0 + a_1\, Profitabilityi,t + a_2\, Growthi,t + a_3\, Leveragei,t + a_4\, Liquidityi,t + a_5 Sizei,t + a_6\, Investmenti,t + a_7\, SPi,t + a_8\, LLi,t + ei,t \quad (5)$$

$DV_{i,t}$ is a dummy variable indicating the large or small consolidated accounts and the large or small parent company accounts

DVi,t = 1 for consolidated or accounts and

DVi,t = 0 for parent company accounts.

$Profitability_{i,t}$
$Growth_{i,t}$
$Leverage_{i,t}$
$Liquidity_{i,t}$
$Investment_{i,t}$

are proxies used to control for firm profitability, growth, leverage, liquidity and investment respectively

$e_{i,t}$ is the error term

$SP_{i,t}$ is a dummy variable indicating a measure of small profits. $SP_{i,t}$ = 1 if the net profit scaled by total assets is between 0 and 0,01 (Lang et al, 2006: Barth et al, 2005: Iatridis, 2008) and SPi.t = 0 otherwise.

$LL_{i,t}$ is a dummy variable indicating a measure of timely loss recognition. $LL_{i,t}$ = 1 if net profit scaled by total assets is less than -0,20 (Lang et al, 2003: Barth et al, 2005: Iatridis, 2008) and $LL_{i,t}$ = 0 otherwise.

$e_{i,t}$ is the error term.

A negative coefficient on SPi,t would mean that consolidated accounts do not tend to manage their profit figures, and hence they report small positive rather than negative amounts less frequently (Iatridis, 2011). A positive coefficient on LLi,t would show that consolidated accounts tend to recognize large losses more readily (Iatridis, 2011). The timely recognition of large losses should provide evidence of lower earnings management (Ball et al, 2003; Lang et al, 2006). This would suggest that in the presence of earnings management, large losses would not tend to be frequent (Iatridis, 2011).

3.4 Accounting Conservatism

Accounting conservatism is desirable attribute of financial statement and for this reason is a long-standing issue in the accounting literature (Chan et al, 2009). Zhou (2008) implies that less earnings management means that firms are reporting financial information more reflective of the operating performance. However, Zhou (2008) shows that conservatism means that firms report less favorable information compared

to the operating performance. According to Goncharov et al (2009) the timely incorporation of accounting income could be achieved with a timely recognition of economic gains and losses. In contrast to traditional definitions of conservatism, Givoly and Hayn (2000) intend that earnings conservatism which is associated with cash flows, perhaps is "a question of the timing and sequencing of gains and losses" (Goncharov et al, 2009).

In the previous analysis, there is a description about accounting conservatism and the two types of it conditional and unconditional conservatism. The conditional conservatism is described as the higher degree of verification that is required when good news is reported (Basu, 1997). Unconditional conservatism relates to the early recognition of losses regardless of whether the news is good or bad (Qiang, 2007).

Managers may be opportunistically motivated to overstate assets and earnings related figures and understate liabilities in order to improve their bonuses and wealth or the company financial profile and future financial prospects (Watts, 2003). However, conservatism would tend to understate assets and earnings and offset managers' opportunistic behavior (Watts, 2003). Unconditional conservatism may arise "from tax, litigation and managerial self-interest" (Cano-Rodriguez, 2010) and it may lower the information the information value of reported financial information (Ball et al, 2003). Conditional conservatism would subsequently be evident especially when high quality accounting information is required, such as in the case of issuing equity and debt capital, cross-listing or when strong investor protection mechanisms are in place (Francis and Wang, 2008). The hypothesis that is tested is the following.

H_6: The parent company accounts and the consolidated accounts reflect different levels of accounting conservatism. The alternative hypothesis is that the parent company accounts don't reflect different levels of accounting conservatism.

Empirical analysis is concentrated on the accounting period 2005-2008.
The study uses an Ordinary Least Square (OLS) regression to determine the association between discretionary accruals (the dependent variable) and specific explanatory variables (the independent variables). Barth et al (2005) comments imply that by recognizing unrealized future expenses and losses, accounting conservatism could improve the relation between current earnings and future cash flows but at the cost of earnings predictability. Moreover, Basu's (1997) earnings asymmetric timeliness in recognizing losses versus gains is the most commonly used measure of accounting conservatism. Givoly and Hayn (2000) examine the changes in the time-series properties of earnings, cash flows and accruals are consistent with increased reporting conservatism. The regression model that is used is based on Tendeloo and Vanstraelen (2005) and is as follows (Iatridis, 2008).

$$DAC_{i,t} = a_0 + a_1\, CFD_{i,t} + a_2\, OCF_{i,t} + a_3\, CFD_{i,t}\, x\, OCF_{i,t} + a_4\, AQ_{i,t} + a_5\, AQ_{i,t}\, x\, CFD_{i,t} + a_6\, AQ_{i,t}\, x\, OCF_{i,t} + a_7\, AQ_{i,t}\, x\, CFD_{i,t}\, x\, OCF_{i,t} + e_{i,t} \quad \textbf{(6)}$$

where $DAC_{i,t}$ is the discretionary accruals that are estimated using the cross-sectional Jones model (Jones, 1991). The study uses the residuals of the following regression model as discretionary accruals (see also Bartov et al, 2001;Kothari et al, 2005; Garza-Gomez et al, 2006, Iatridis, 2011),

$$ACi,t = a_0\,(1/Ai,t\text{-}1) + a_1\,\Delta REVi,t + a_2\, PPEi,t + ei,t \quad \textbf{(7)}$$

where ACi,t is accruals in year t scaled by total assets, i.e. total assets. Accruals equal the annual change in current assets (excluding cash) minus current liabilities (excluding short-term debt and income tax payable) minus depreciation,

Ai,t-1 is total assets in year t,

ΔREVi,t is the annual change in revenues in year t scaled by total assets,

PPEi,t is property, plant and equipment in year t scaled by total assets,

ei,t is the error term.

$CFD_{i,t}$ is a dummy variable representing the sign of operating cash flows. $CFD_{i,t}$ = 1 if operating cash flows scaled by total assets is negative and $CFD_{i,t}$ = 0 otherwise,

$OCF_{i,t}$ is operating cash flows scaled by total assets,

$AQ_{i,t}$ is a dummy variable representing the consolidated and parent company accounts. $AQ_{i,t}$ = 1 for consolidated accounts and $AQ_{i,t}$ = 0, for parent company accounts

$e_{i,t}$ is the error term.

The relationship between consolidated and parent company accounts is captured with a_7. A positive a_7 would signify that consolidated accounts show greater accounting conservatism than the parent company accounts. It means that consolidated accounts are expected to exhibit low discretionary accruals even if it experienced negative or low cash flows (see also Iatridis, 2011). Cash flows are a measure of company performance (Givoly and Hayn, 2000). This measure has been used from a lot of researchers like (Givoly and Hayn, 2000: Healy, 1995: Iatridis, 2011).

4. Research Methodology

4.1 Data requirement analysis

The empirical analysis concentrates on the period of 2005 to 2008. On the June,2002, the commission of EU welcome the Council's adoption of the regulation required listed companies to prepare consolidated accounts in accordance with IAS from the year 2005 (Ballas et al, 2010). European Union Regulation 1606/2002 requires all listed companies to prepare consolidated financial statements on the basis of IFRS. The study has focused on the period after the adoption of IFRs, thus, the study focuses

on a large period encompassing the transition from UK GAAP to IFRs. It is very important how the transition from GAAP to IFRS affected companies' financial statements. It is believed that the period from 2005 to 2008 will be representative in order to observe the changes and how easily or not the firms have faced the problems of this change. Accounting and financial data were collected from digitallook.com. Information concerning the accounting and disclosure policies of the sample firms was obtained from their published in FT financial statements. The sample consists of 367 UK firms that are listed on the London Stock Exchange. As far as the size of the sample is concerned the study uses all the firms which were gratuitous in FT. Moreover, the accounting measures which used as explanatory variables are described in Appendix 2.

4.2 Research design

Fundamental research is distinguished in exploratory and conclusive research, as well as in primary and secondary data. As far as exploratory research provide insights into and apprehension of a certain issue. Moreover, its goal is to start setting the ground on a field for which nothing or little is known about. Finally, conclusive research regards a topic for which sufficient study has interceded, which usually sets a framework future research. Thus, the results can be generalized to the rest of the population.

Furthermore, primary research premises the use of original data, while secondary research is based on data that is published by someone else. However, it is evident that secondary research is less expensive that primary research because everybody uses the research from someone other, thus, does not spend time or money.

As mentioned before, the main objectives of this essay is to investigate the kind of relationship between consolidated and parent company accounts take into consideration the market value of firms, the audit of Big 4 auditors or non-Big 4 auditors, the earnings management and accounting conservatism, as well as to find some general characteristics as far as the consolidated or parent company accounts are concerned, regarding a specific sample of 367 UK firms listed on London Stock Exchange, for the period of 2005 to 2008.

4.3 Methods for data collection

Data collection is an important matter when preparing a research study. It is known that the quality of its final results depend on the quality of the data that have been collected during the research procedure. There are two principal methods for data collection the qualitative and quantitative.

The qualitative data collection methods include interviews, observation methods and document review. However, the quantitative data collection methods includes interviews (interviews could be telephone interview or face to face interviews or computer interviews), questionnaires, case studies, portfolios, diaries, basic financial statements like balance sheet, income statement, cash flow statements e.t.c. All they belong to the primary research. Moreover, the qualitative methods have less structured frameworks and are open-ended in contrast with quantitative methods. The data received by qualitative and quantitative data collection methods are primary research tools, one of the primary ones among them being the coverage of the data needs of secondary data, which uses them in order to produce valuable information for researchers.

This essay is a secondary research study, it employs secondary research tools. It uses quantitative and qualitative data. Quantitative data (accounting and financial) are the firms' basic financial statements stored in Digital Look and Hemscott. Moreover, qualitative data like reviews, reports and notes which is stored in FT.

4.4 Methods for data analysis

The literature shows two data analysis methods, one is the hypothesis testing and another explanatory data analysis. As far as the hypothesis testing is concerned, it is used to check a priori hypothesis and the relationship between some variables. Moreover, in order to examine the hypothesis testing, researchers use accounting measures to proxy for the attributes that we have to measure statistically. However, explanatory data analysis is designed in order to detect relationships between variables, for which no a priori expectations exist as for the nature of their relations. Moreover, the explanatory data analysis uses a set of techniques in order to conclude.

In this study, simple descriptive statistics like mean, median, standard deviation and correlation coefficients have been estimated. Furthermore, the linear and the binary logistic regression are used with a lot of financial ratios. In the financial statements the use of financial ratios is frequent. The managers use them in order to analyze trends and compare a firm's financial situation with those of other firms. The categories of the ratios are the above: profitability, liquidity, financial leverage and investment. In the present essay, all these ratios are used in order to find specifically results.

As far as the regression analysis is concerned, it is used in order to show the action of a dependent variable based on the independent variables. The study uses the linear and binary logistic regression analysis in order to facilitate a more structured approach to the empirical analysis. Thus, the linear regression analysis is used in order to explain the relationship between the dependent and independent variables with a straight line fit to the data. Moreover, the logistic regression is useful in analyzing data, where the dependent variable is dichotomous and takes two values, 0 and 1. The parameters of the logistic regression are estimated based on the maximum likelihood method, while the hypothesis testing is based on the Wald statistic (see also Iatridis, 2011). Moreover, According to Iatridis (2011) "the diagnostic tests entailed an assessment of: (i) the relative significance of the estimated coefficients (p-value<0.01,0.05,0.10); (ii) the magnitudes of the logit models' studentised residuals (<=3.0); and (iii) the naive proportional chance model". Moreover, all the logistic regression results reported in this study have passed those tests (Iatridis, 2011). For example, in the present study, firms that are large and firms that are small or firms that audited by Big 4 auditors and firms that did not.

The study has accounted for heteroscedasticity, autocorrelation, departure from normality and multicollinearity, where appropriate. The tests that have been performed to check the OLS assumptions are White test and the Autoregressive Conditionally Heteroscedasticity test for hetescedasticity ; the Durbin-Watson test and the Breusch-Godfrey test for autocorrelation ; the Jarque-Bera test for the departure from normality of residuals ; and the correlation coefficients among the test variables for multicollinearity (see also Iatridis, 2011).

4.5 Methodological review

First of all, the data collection methods which are used in this essay are both of quantitative (firm's basic financial statements) and qualitative like reviews, notes and reports that are related with the firms' financial statements. Take into account the fact that the 367 firms are listed on the London Stock Exchange and the wide recognition of financial and accounting databases (FT, Digital Look, Hemscott), the secondary data collection is considered valid and reliable as well.

Furthermore, as far as the data analysis methods are concerned in this study, they regard both basic and multivariate statistical techniques. Specifically, the statistical techniques which are utilized are the descriptive summary statistics measures, correlations, linear and binary logistic regression with a variety of financial methods. Finally, the validity and reliability of data analysis methods give the objectivity and accuracy of the corresponding statistical tools.

5. Empirical Study, Research Findings and Discussion

5.1 Descriptive statistics of group and company accounts

In Table 1 are showed the descriptive statistics for the sample firms examined in this case study. Panel A presents the means and standard deviations for consolidated accounts, while the Panel B for parent company accounts. The descriptive statistics examine that consolidated accounts have higher size (LNA), it means that they are visible in the market in contrast with parent company accounts (see also Iatridis, 2011). Moreover, consolidated accounts exhibit higher level of debt (TLSFU). Furthermore, the descriptive statistics show higher changes in net income (ΔREV) for consolidated accounts (see also Iatridis, 2011). Finally, the study shows that parent company accounts display a higher mean value for operating cash flows. Moreover, Table 1 indicates that parent company accounts have also a higher mean value for operating profit margin (OPM).

Consequently, Table 1 indicates that the discretionary accruals (DAC) of consolidated accounts have a greater mean value than parent company accounts. This finding signifies that consolidated and parent company accounts move to the same direction. They encourage the implementation of earnings management. In addition, consolidated accounts exhibit a less positive mean value for small positive earnings (PE) which is 0,030 and a more positive mean value for large losses (LL) which is 0,090 than parent company accounts. Thus, the descriptive statistics show that the case would refer small positive earnings less often and would recognize large losses in time (Iatridis, 2011).

5.2 Company size

Table 2 generally investigate that H_1 holds and presume that the small consolidated accounts are likely significant different than large consolidated accounts. The binary logistic regression is used (for further details see Table 2, Panel A, Appendix A), which in turn suggest that, since the dummy variable indicating either the enforcement of small consolidated accounts or large consolidated accounts have a positive or negative relation with financial measures. For example it means that if the coefficients are negative, there is a negative relation between financial measures and large consolidated accounts. In contrast if the coefficients are positive, there is a positive relation between financial measures and large consolidated accounts.

To start with, the logistic regression shows that gearing ratio (GEAR), return on assets (ROA) and depreciation ratio (DEPRECIATION) carry positive coefficients, suggesting that they are higher for large consolidated accounts. As far as the gearing ratio, it is an important factor in assessing risk. The positive relation with large consolidated accounts means that these firms borrow more than small consolidated accounts. Moreover, it takes on a commitment to pay interest charges and capital repayments. However, if the large consolidated accounts are new or their future earnings is uncertain this high gearing ratio is not good (Atril and McLay, 2006). Return on asset is an overall measure of profitability. It is combination of a profit margin ratio and the asset turnover ratio (Atril and McLay, 2006). The positive relation suggests that large consolidated accounts generate more efficiently the profits from assets. It means that large consolidated accounts have the more efficient management in order to utilize their assets to make a profit. Furthermore, the depreciation is a measure ratio in order to find difference between earnings and cash flows (Kim and Kross, 2005). However, despite the fact that depreciation is an accounting expense it is not a cash expense (Kim and Kross, 2005). In this case, the depreciation ratio for large consolidated accounts is higher than small consolidated

accounts and it implies that large consolidated accounts find more easily difference between earnings and cash flows in order to deprecate earnings.

Furthermore, the logistic regression shows that returns on ordinary share hold's funds (ROSF), gross profit margin (GPM), current ratio, and debt to equity ratio carry negative coefficients, suggesting that they are lower for large consolidated accounts than small consolidated accounts if they are statistically significant. The ROSF ratio means that there are more current assets than the company needs to provide assurance, the company may be investing too heavily and perhaps not productively. However, it is not statistically significant and it does not influence the large consolidated accounts. As far as gross profit margin, it represents the difference between sales revenue and the cost of sales. It is a measure of profitability in buying and selling goods before any other expenses take into account (Atril and McLay, 2006). Panel A shows that costs of sales are lower relative to sales revenue for large consolidated accounts because of the negative coefficient which has this ratio. Moreover, it could mean that sales prices are lower or that the purchase cost of goods has increased for these accounts. In addition, the findings show that large consolidated accounts in contrast with small consolidated accounts do not use effectively its raw material, labor fixed assets in order to generate profits. Finally, debt to equity ratio shows the relation of debt and equity as sources of capital to finance the company's assets (Atril and McLay, 2006). It is a measure of company's' borrowing capacity (Ahn et al, 2006). Moreover, it means that the higher is equity and the lesser is debt, the better is financial structure of the company in point of creditors. In this case, the financial structure of small consolidated accounts is better than large consolidated accounts. However, this findings show that the proportion of debt and risk is greater for small consolidated accounts. Moreover, the higher this ratio is, the closer the firms operate to the constraints in debt covenants (Deegan and Unerman, 2006). Finally, the higher the debt to equity ratio the more likely managers will use accounts manipulation to increase income, which will eventually increase equity (Deegan and Unerman, 2006).

Moreover, Table 2 generally provides evidence that H_2 holds, implying that the small parent company accounts are likely significant different than large parent company accounts. The binary logistic regression is used (for further details see Table 2, Panel B, Appendix A), which in turn suggest that, since the dummy variable indicating either the enforcement of small parent company accounts or large parent company accounts have a positive or negative relation with financial measures.

First of all, the logistic regression shows that only operating ratio (OPER.RATIO) carry positive coefficients, suggesting that it is higher for large parent company accounts. It means that the higher this ratio, the better the performance and profitability of the company. Moreover, this positive relation suggests that large

parent company accounts could control cash more efficiently than small parent company accounts. Furthermore, the logistic regression shows that returns on ordinary share hold's funds (ROSF), gross profit margin (GPM), gearing ratio (GEAR), and debt to equity ratio and depreciation carry negative coefficients, suggesting that they are lower for large parent company accounts than small parent company accounts if they are statistically significant. The variables which are statistically significant are gross profit margin and debt to equity ratio. First of all, Panel B shows that costs of sales are lower relative to sales revenue for large parent company accounts because of the negative coefficient which has this ratio. Moreover, it could mean that sales prices are lower or that the purchase cost of goods has increased for these accounts. Finally, debt to equity ratio is lower for large parent company accounts and it means that the financial structure of large parent company accounts is less good in point of creditors than small parent company accounts. It happens because creditors and lenders rely on the ratio heavily in order to evaluate borrowers (McConnell and Servaes, 1995).

5.3 Big 4 auditors and non-big 4 auditors

Table 3 generally investigate that H_3 holds and suggest that the consolidated accounts that audited by Big 4 auditors are likely significantly different than those that are not audited by Big 4 auditors. The binary logistic regression is used (for further details see Table 3, Panel A, Appendix A), which in turn suggest that, since the dummy variable indicating either the enforcement of consolidated accounts that audited or not by Big 4 auditors have a positive or negative relation with financial measures. For example it means that if the coefficients are negative, there is a negative relation between financial measures and consolidated accounts audited by Big 4 auditors. In contrast if the coefficients are positive, there is a positive relation between financial measures and firms that audited by Big 4 auditors. It means that the financial statements of consolidated accounts that audited by Big 4 auditors can attract more the investors and shareholders.

First of all, the logistic regression shows that sales revenue to capital employed ratio (SRCE), current ratio (CR), gearing ratio (GEAR), return on assets (ROA) and depreciation ratio (DEPRECIATION) carry positive coefficients, suggesting that they are higher for consolidated accounts that audited by Big 4 auditors and lower for consolidated accounts that not audited by them if they are statistically significant. However the statistically significant variables are only the SRCE, GEAR and ROA.

Thus, in this case study these variables will be analyzed. First of all, the sales revenue to capital employed ratio (SRCE) shows how effectively the assets of the business are used in order to generate sales revenue (Atril and McLay, 2006). Thus, the Panel A shows that consolidated accounts that audited by Big 4 auditors use assets more productively in the generation of revenue. Gearing ratio as an important factor in assessing risk has a positive relation with consolidated accounts audited by Big 4 auditors and this relation shows that these firms borrow more than consolidated accounts that not audited by Big 4 auditors. Return on asset is an overall measure of profitability. The positive relation suggests that consolidated accounts audited by a Big 4 auditor generate more efficiently the profits from assets. This relation suggests that consolidated accounts that audited by Big 4 auditors has a more efficient management for its assets base. The return on assets cannot be compared to the cost of capital since that cost is based on the debt to equity (Atril and McLay, 2006). Unfortunately, in this case the debt to equity ratio is not statistically significant and it does not influence the firms that audited or not by Big 4 auditors.

Moreover, the logistic regression shows that returns on ordinary share hold's funds (ROSF), debt ratio, debt to equity ratio and operating ratio (OPER.RATIO) carry negative coefficients, suggesting that they are lower for consolidated accounts that audited by Big 4 auditors. However, only the debt ratio influence the consolidated accounts that audited by Big 4 auditors. According to McConnell and Servaes (1995) if companies have great investment opportunities, the increased liabilities will not be the cause to hamper growth. These findings show that consolidated accounts that audited by Big 4 auditors have a lower level of financial risk of bankruptcy. Moreover, the explanation of this relation could be that consolidated accounts that audited by Big auditors is less dependent on leverage and they have a stronger equity position.

Furthermore, Table 3 provides evidence that H_4 holds, indicating that parent company accounts audited by Big 4 auditors are likely significant different than parent company accounts that not audited by Big 4 auditors. The binary logistic regression is used (for further details see Table 3, Panel B, Appendix A), which in turn suggest that in some cases parent company accounts that audited by Big 4 auditors are in better position than the others and the opposite.

To start with, the logistic regression shows that current ratio (CR), gearing ratio (GEAR) and operating ratio (OPER.RATIO) carry positive coefficients, suggesting that they are higher for parent company accounts that audited by Big 4 auditors and lower for parent company accounts that not audited by them if they are statistically

significant. However, the statistically significant variables are the current ratio and gearing ratio. The current ratio is higher for parent company accounts audited by Big 4 auditors; it means that these accounts are more able to satisfy its immediate obligations than the others. Researchers establish that the higher the current ratio, the better for the company. Thus, parent company accounts audited by Big 4 auditors can more easily pay its short term liabilities than parent company accounts that not audited by Big 4 auditors. Moreover, gearing ratio which is very important in assessing risk has a positive relation with parent company accounts audited by Big 4 auditors and this relation shows that these firms borrow more than parent company accounts that not audited by Big 4 auditors.

To conclude, the logistic regression suggests that ordinary share hold's funds (ROSF), sales revenue to capital employed ratio (SRCE), debt ratio and gross profit margin (GPM) carry negative coefficients, suggesting that they are lower for parent company accounts that audited by Big 4 auditors if they are statistically significant. However, the variables which influence the parent company accounts that audited by Big 4 auditors are the ROSF and GPM. The Panel B shows a negative coefficient for ROSF. Thus, parent company accounts that are not audited by Big 4 auditors are in more profitable than parent company accounts that audited by Big 4 auditors. Small revenue to capital employed ratio has a negative relation with parent company accounts that audited by Big 4 auditors. It means that they use their assets less productively than parent company accounts that not audited by Big 4 auditors. As far as gross profit margin, it represents the difference between sales revenue and the cost of sales. It is a measure of profitability in buying and selling goods before any other expenses take into account (Atril and McLay, 2006). Panel B shows that cost of sales are higher relative to sales revenue for parent company accounts that not audited by Big 4 auditors because of the negative coefficient which has this ratio. Moreover, it could mean that sales prices are lower or that the purchase cost of goods has increased for these accounts. Finally, the best financial structure has the parent company accounts that are not audited by Big 4 auditors as long as the negative coefficient.

5.4 Earnings Management

Table 4 generally investigate that H_5 holds and suggest that the parent company accounts and the consolidated accounts reflect different levels of earnings management. The Ordinary Least Square (OLS) regression level of Tendeloo and Vastraelen (2005) and also Iatridis (2008) is used (for further details see Table 4, Panel A, Appendix A), which in turn suggests that, since the dummy variable indicating either the enforcement of parent company accounts or consolidated

accounts (DV) is positive. Thus, Panel A examines that DV carries a significantly positive coefficient, suggesting a positive relation between consolidated accounts and earnings management, therefore a negative relation between parent company accounts and earnings management.

Furthermore, since the variable used to examine the impact of consolidated accounts on the association between discretionary accruals and profitability (DVOPM) is negative. It means that there is a negative relation between discretionary accruals and profitability for consolidated accounts. Moreover, it implies that there is a positive relation between discretionary accruals and profitability for parent company accounts. According to Mosebash and Simko (2005), firms which are able to sustain profitability have lower discretionary accruals and engage more in earnings management. It means that discretionary accruals are positive associated with profitability. Last but not least, it can conclude that there is also a negative relation between earnings management and profitability for consolidated accounts. This would indicate that, when profitability is low, consolidated accounts engage more in earnings management (Iatridis, 2011).

In addition, since the variable used to examine the impact of consolidated accounts on the association between discretionary accruals and size (DVLNMV) is negative, there is a negative relation between discretionary accruals and size (smaller firms) for consolidated accounts, suggesting a positive relation between earnings management and size for parent company accounts. Prior literature shows that the larger the firm size, the less earnings management could be obtainable (Burgstahler and Dichev, 1997). Moreover, it implies that smaller firms tend to employ earnings management (Iatridis, 2011). It means that consolidated accounts with smaller size engage more in earnings management in contrast with parent company accounts. It happens because larger size firms could have a greater control system, they could be audited by Big 4 auditors and they could have better appreciation of market environment (Burgstahler and Dichev, 1997). Moreover, according to literature, large firms than small firms are more likely to use accounting choices that reduce reported profits (Goncharov et al, 2009). For all these reasons, this study suggests that smaller consolidated accounts engage more in earnings management.

What is more, since the variable used to examine the impact of consolidated accounts on the association between discretionary accruals and leverage (DVTLSFU) is positive, there is a positive relation between discretionary accruals and leverage(firms with higher loan levels) for consolidated accounts, suggesting a positive relation between earnings management and leverage for consolidated accounts. Moreover, the

findings show that consolidated accounts have higher level of leverage and it means that they are at risk of bankruptcy. Seriously, it could happen if the consolidated accounts could not make payments from their external debt financing or if they could not find lenders in the future (Defond and Jiambavlo, 1994). Furthermore, it means that consolidated accounts with high total liabilities to shareholder's funds (TLSFU) would engage more in earnings management in order to avoid entering into financial bankruptcy (Goncharov et al, 2009). Thus, if consolidated accounts would take a loan, the lenders would analyze the reasons for which the company borrows too much (Defond and Jiambavlo, 1994). Finally, the literature investigates that the higher leveraged firms engage more in earnings management in order to avoid debt covenant default (Dichev and Scinner: Defond and Jianbavlo, 1994). To sum up, there is a negative relation between discretionary accruals and leverage for parent company accounts. It means that there is also a negative relation between earnings management and leverage for parent company accounts. Thus, parent company accounts with high total liabilities to shareholder's funds (TLSFU) engage less in earnings management.

Finally, Panel B examines the association between small profits rather than large losses. The binary (or binomial) logistic regression is used (for further details see Table 4, Panel B, Appendix A), indicating that, since the dummy variable implying a measure of small positive, SP, (Lang et al, 2003: Barth et al, 2005: Iatridis, 2011) is negative, while the variable implying a measure of timely loss recognition, LL, (Lang et al, 2006: Barth et al, 2005, Iatridis, 2011) is positive. According to Givoly and Hayn (2000) earnings conservatism is a question of the timing and sequencing of gains and losses with respect to their cash flows. These findings with the negative coefficient on SPi,t suggest that consolidated accounts do not manage their profit, and they report small positive rather than negative amounts less frequently. Thus, consolidated accounts do not manage the accounting numbers in order to report small profits instead of losses (Iatridis, 2011). However, the positive coefficient on LLi,t shows that consolidated accounts try to recognize large losses more readily. The timely recognition of large losses provides evidence of lower earnings management (Ball et al, 2000; Lang et al, 2005, Iatridis, 2011). This suggests that in the presence of earnings management, large losses do not tend to be frequent (Iatridis, 2011). Thus, the findings show that there is a negative relation between consolidated accounts and earnings management.

5.5 Accounting Conservatism

Table 5 generally investigates that H_6 holds and investigate that the parent company accounts and the consolidated accounts reflect different levels of accounting conservatism. Ordinary Least Square (OLS) regression model of Tendeloo and Vastraelen (2005) and also Iatridis (2011) is used (for further details see Table 5, Appendix A), which suggests that since the dummy variable indicating either the enforcement of parent company accounts or consolidated accounts (AQ) is negative. Table 5 shows that AQ carries a significantly negative coefficient, suggesting a negative relation between consolidated accounts and accounting conservatism.

In addition, since the variable used to examine the association between discretionary accruals and operating cash flows (OCF) is positive, suggesting a positive relation between accounting conservatism and operating cash flows for consolidated accounts, thereupon a negative relation between accounting conservatism and cash flows for parent company accounts. It means that consolidated accounts with low operating cash flows would display low discretionary accruals and engage less in accounting conservatism. According to Ahmed and Duelman (2007) accounting conservatism could be a mechanism that manages risk which helps monitor operating cash flows. Thus, the findings provide evidence that consolidated accounts engage less in accounting conservatism and thus, consolidated accounts could not manage so effectively their risk. Moreover, accounting conservatism release from agency problems associated with higher cash holdings (Louis et al, 2004). Finally, perhaps the results do not drive the consolidated accounts to accounting conservatism; they drive the parent company accounts in this direction.

Furthermore, the relation between parent company accounts and consolidated accounts is captured with a_7 (see also Iatridis, 2008). It means that if a_7 is positive, consolidated accounts will show greater accounting conservatism than parent company accounts (Iatridis, 2008). Moreover, consolidated accounts are expected to exhibit low discretionary accruals even if it experienced negative or low cash flows. In our case, a_7 captures the association between consolidated, parent company accounts and accounting conservatism is significantly negative, showing that consolidated accounts display lower accounting conservatism than parent company accounts which have a positive relation with accounting conservatism. Finally, the H_6 cannot be rejected indicating that in accordance with literature parent company accounts display higher level of conservatism than consolidated accounts (Goncharov et al, 2009). Moreover, these findings suggest that parent company accounts “would reinforce the contracting efficiency and validity of reported financial numbers”,

thereby increasing accounting conservatism (see also Iatridis, 2011). However, the trend for a greater conservatism has a little attention from researchers exclude a lot of studies like Basu (1997) and Pope and Walker (1999).

6. Conclusions and Recommendations

This study focuses on UK listed companies and investigates the differences of consolidated and parent company accounts as far as the financial statement of each one. First of all, the study investigates how the market size of a company either consolidated or parent company makes them to diversify as far as the financial ratios are concerned. The study also explores the relation between firms that audited by Big 4 auditors and firms that did not (consolidated and parent company). In addition, the study examines the association between consolidated accounts or parent company accounts to engage in earnings management. Finally, this paper focus in the relation between consolidated or parent company accounts and accounting conservatism. To sum up, this study concentrates on earnings conservatism and try to explain how some accounting variables can influence the reporting of less profits or/and more losses in financial statements (Iatridis, 2011).

To start with, firms that are categorized with the criteria of market size structure present the above results. As far as large consolidated accounts, the findings show that they borrow more in order to satisfy their obligations. The fact that current ratio is lower for large consolidated accounts explain the reason for which these companies borrow more. It is a way to satisfy their immediate obligations. However, sometimes it can be predictable for large firms. Moreover, it takes on a commitment to pay interest charges and capital repayments. Furthermore, the study shows that large consolidated accounts generate more efficiently the profits from assets. Moreover, the costs of sales are lower relative to sales revenue for large consolidated accounts. Finally, large consolidated accounts find more easily difference between earnings and cash flows in order to deprecate earnings. However, the financial structure of small consolidated accounts is better than large consolidated accounts. Finally, large consolidated accounts have the more efficient management in order to utilize their assets to make a profit. As far as the parent company accounts, study investigates that large parent company accounts have a greater company performance as small. Finally, the financial structure of large parent company accounts is less good in point of creditors than small parent company accounts. It happens because creditors and lenders rely on the debt to equity ratio in order to evaluate borrowers (McConnell and Servaes, 1995). However, although they borrow more, their financial structure is better than large parent company accounts.

The study focuses on firms that audited by Big-4 auditor and firms that not audited by Big-4 auditors. The findings show that consolidated accounts that audited by Big-4 auditors use more effectively the assets in order to generate sales revenue. Thus, they

are more productively in the generation of revenue. Moreover, they borrow more. However, the consolidated accounts that audited by Big-4 auditors control their profitability more effectively. Finally, consolidated accounts that audited by Big 4 auditors have a lower level of financial risk of bankruptcy. It means that consolidated accounts that audited by Big auditors is less dependent on leverage and they have a stronger equity position. As far as parent company accounts that audited by Big-4 auditors, they have less good financial structure but they are more able to satisfy their immediate obligations and assess the risk in order to borrow more. To sum up, firms that audited by Big-4 auditors provide higher quality of information than firms that did not audited by Big-4 auditors (Watts and Zimmerman, 1986: Becker et al, 1998: Caneghem, 2004). According to previous literature, the non-Big 4 auditors have comparative advantages in merger and acquisition (Peale, 1994), to conclude we observe this in parent company accounts that do not audit by Big-4 auditors.

Firms that audited by Big-4 auditors either consolidated or parent companies try to improve their managerial profile in order to obtain a favorable audit report (Peale, 1994). The study shows that when profitability is low, consolidated accounts engage more in earnings management (Iatridis, 2011). Managers try to use earnings management in order to improve their company performance and the financial structure of their companies. According to Iatridis (2011) firms that engage in earnings management tend to display higher leverage, larger size, lower growth and inferior profitability and liquidity figures. In our case, consolidated accounts with smaller size, lower profitability and large total liabilities to shareholder's funds engage more in earnings management. Finally, the findings show that even when they exhibit lower cash flows or higher leverage consolidated accounts tend to recognize large losses more timely and would generally engage less in earnings management (Iatridis, 2011).

In addition, the study investigates the relation between consolidated accounts and accounting conservatism. The trend towards an even greater conservatism has not been systematically documented and with a few exceptions has received a little attention from the researchers (Goncharov et al, 2009). Furthermore, the application of accounting conservatism varies of firm to firm. The study shows that consolidated accounts with low operating cash flows would display low discretionary accruals and engage less in accounting conservatism. However, the findings examine that consolidated accounts display lower accounting conservatism than parent company accounts. The main finding is that parent company accounts reinforce the contracting efficiency and validity of reported financial numbers, thereby increasing accounting conservatism (Goncharov et al, 2009, Iatridis, 2011).

The scope of the research has achieved because this study find and analyze the differences between consolidated and parent company accounts in order to help managers to change or improve some failures or defaults. The findings of the study may be interest to financial analysts, managers, stock market authorities and students of accounting. Especially, earnings management, auditing and accounting conservatism is serious financial items which are interesting in financial analysts and managers a lot. The audit practitioners either Big 4 or non-Big 4 auditors audit the financial statements of companies thus they play an important role in the firms function, performance and position (Jenkins and Krawczyk (2001). It is known that accounting conservatism is one of the oldest and most important principles of accounting (Watts, 2003). The accounting conservatism influences accounting quality and decisions usefulness. Thus, it is believable that a timely recognition of economic income would be usefulness about managers, investors and creditors. Moreover, earnings management is very important for managers because they report them in order to make the best possible decisions for the companies. Moreover, earnings management are beneficial and for shareholders. Arya, Glover and Sunder (2003) state:

"That earnings management reduces transparency is a simplistic idea. Different people know different things and nobody know everything. In such an environment, a managed earnings stream can convey more information than an unmanaged earnings stream…."

Moreover, the findings of the study are useful for investors and lenders when they review firms' financial numbers and accounts. The study is also useful for regulatory and other market authorities, especially when they prepare or review accounting and financial regulation on reporting firm financial performance. Furthermore, they can reduce the scope for earnings management or accounting conservatism and enhance the quality of the reported financial information.

While the current study provides initial empirical evidence on consolidated and parent company accounts, more work is required in this area to gain a full understanding of how different could be these accounts in a variety of financial measures. For example future research can investigate how influence these accounts the change with the European Union Regulation 1606/2002. It requires all publicly traded companies to prepare consolidated financial statements on the basis of International Financial Reporting Standards (IFRs). Further research could explain how the transition from previous GAAP to IFRs affected companies' financial statements. Moreover, more work could become to the direction of accounting conservatism. The accounting literature identifies two types of conservatism the condition and the unconditional conservatism. The first one described as the higher degree of verification when good

news is reported (Basu, 1997) and the second one relates to the early recognition of losses when the news is bad or good (Qiang, 2007). Thus, researchers could be interested in the relation between conditional and unconditional conservatism for consolidated accounts or parent company accounts. Finally, another section which could be interested in researchers is the relation between earnings sensitivity and accounting conservatism as far as the consolidated and parent company accounts are concerned.

7. Reflection on Learning

First of all, the presentation of a dissertation essay is a painstaking procedure because it needs a lot of effort and time to be offered in order to present a good piece of work. However, despite the fact that this preparation can be sometimes sharp, the result definitely deserves it.

It was my first time to produce something like this study. Thus, it is supposable that a lot of difficulties as far as the parts of selection, processing and interpretation of the data have emerged. However, the contribution of my supervisor was invaluable because he supported me with the necessary knowledge and his valuable time, courage and trust. I have a very difficult everyday program in my life because I have two jobs. I work in a company as director of the credit control department and also I am mathematician. Thus, my program is full. For this reason, the help of my supervisor was inestimable.

Regarding the conclusive results of the study, the results were not expected on the whole. However, reading the literature in the same topic, I thought that I would provide different pieces of evidence. Thus, I continue to this direction. Along with them, I should use some general characteristics in order to impel interested parties to study the topic of consolidated and parent company accounts in a different level as far the earnings management and accounting conservatism are concerned.

Finally, if I were to start my dissertation essay from the beginning, I would place more emphasis to the literature in the topic of market value and accounting conservatism and also I would put more descriptive details. I think that descriptive details could present a more elaborate analysis.

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TABLES

1-5

APPENDIX A

TABLE 1

DESCRIPTIVE STATISTICS

Panel A

Consolidated Accounts

Variables	Mean	Std Deviation
OCF	1,080	1,392
LNA	1,840	1,950
TLSFU	1,037	3,976
DAC	0,018	0,999
OPM	-3,315	32,162
SP	0,030	0,182
LL	0,090	0,286
ΔREV	0,747	0,932

Panel B

Parent Company Accounts

Variables	Mean	Std Deviation
OCF	**1,896**	**2,460**
LNA	**0,000**	**0,000**
TLSFU	**0,000**	**0,000**
DAC	**0,010**	**0,999**
OPM	**0,000**	**0,000**
SP	**0,520**	**0,500**
LL	**0,010**	**0,078**
ΔREV	**0,000**	**0,000**

TABLE 2

Company Size & Consolidated Accounts

N(Sample Size)=367 firms

N1 (Large firms)=224 firms

No (Small firms)=143 firms

Panel A (Logistic Regression)

Variables	Coefficients	Significance
ROSF	-0,036	
GPM	-0,660	***
CR	-0,002	
GEAR	1,959	***
DEBTRATIO	-0,805	
ROA	1,597	***
OPER.RATIO	0,002	
DEPRESIATION	0,124	**
DEBTTO EQUITY	-0,009	***
constant	0,199	
Chi-square	31,442	***
% correctly classified	0,524	*

***, ** and * intimate statistical significance at the 1%, 5%, 10% level (two-tailed) correspondingly.

Company Size & Parent Company Accounts

N(Sample Size)=367 firms

N1 (Large firms)=184 firms

No (Small firms)=183 firms

Panel B (Logistic Regression)

Variables	Coefficients	Significance
ROSF	-0,253	
GPM	-0,117	*
CR	0,004	
GEAR	-0,115	
DEBTRATIO	0,000	
ROA	0,000	
OPER.RATIO	0,013	***
DEPRESIATION	-0,022	
DEBTTO EQUITY	-1,134	**
constant	1,082	
Chi-square	5,118	**
% correctly classified	0,667	*

***, ** and * intimate statistical significance at the 1%, 5%, 10% level (two-tailed) correspondingly.

TABLE 3

Big 4 Auditors & Consolidated Accounts

N(Sample Size) =367 firms

N1 (Audited by Big 4 auditors) =237

No (No audited by Big 4 auditors) =130

Panel A (Logistic Regression)

Variables	Coefficients	Significance
ROSF	-0,004	
SRCE	1,255	***
CR	0,001	
GEAR	1,002	***
DEBTRATIO	-0,362	*
ROA	1,292	***
OPER.RATIO	-0,001	
DEPRESIATION	2,015	
DEBTTO EQUITY	-0,001	
constant	0,441	
Chi-square	25,657	***
% correctly classified	0,683	*

***, ** and * intimate statistical significance at the 1%, 5%, 10% level (two-tailed) correspondingly.

Big 4 Auditors & Parent Company Accounts

N(Sample Size)=367 firms

N1(Audited by Big4 auditors)=237

No(No audited by Big4 auditors)=130

Panel B (Logistic Regression)

Variables	Coefficients	Significance
ROSF	-0,073	***
SRCE	-0,045	
GPM	-0,116	**
CR	0,005	**
GEAR	0,139	**
DEBTRATIO	-1,617	
ROA	-0,005	
OPER.RATIO	0,005	
DEPRESIATION	-0,002	
DEBTTO EQUITY	0,000	
constant	1,447	
Chi-square	8,031	**
% correctly classified	0,758	*

TABLE 4

Discretionary accruals on the firm financial measures

Consolidated Accounts versus Parent Company accounts

Panel A (OLS Regression)

Variables	Coefficients	St.error	Significance
DV	0,554	0,311	*
DVOCF	-3,860	0,000	
DVOPM	-0,002	0,001	***
DVLNMV	-0,031	0,017	*
DVTLFSFU	0,001	0,001	*
Constant	0,999	0,030	
R^2 adjusted	0,004		**
Sample Size	367		

***, ** and * intimate statistical significance at the 1%, 5%, 10% level (two-tailed) correspondingly.

Small Profits rather than Losses

Consolidated Accounts versus Parent Company Accounts

Panel B (Logistic regression)

Variables	Coefficients	St.error	Significance
SP	**-0,542**	**0,0346**	***
LL	**0,016**	**0,0429**	***
Chi-square	**7,256**		*
% correctly classified	**0,864**		**
Sample Size	**367**		

***, ** and * intimate statistical significance at the 1%, 5%, 10% level (two-tailed) correspondingly.

TABLE 5

Accounting Conservatism

Consolidated Accounts versus Parent Company Accounts

Panel A (OLS Regression)

Variables	Coefficients	St.error	Significance
OCF	**0,003**	**0,000**	***
CFD	**-0,044**	**0,233**	
OCFXCFD	**-0,023**	**0,448**	
AQi	**-0,131**	**0,055**	***
AQixCFD	**0,395**	**0,244**	*
AQixOCF	**1,115**	**0,255**	***
AQixOCFxCFD	**-0,506**	**0,518**	**
constant	**-0,014**	**0,029**	
R^2 adjusted	**0,104**		*
Sample Size	**367**		

***, ** and * intimate statistical significance at the 1%, 5%, 10% level (two-tailed) correspondingly.

APPENDIX B

Accounting measures used as explanatory variables

SALESTAS	Sales to total assets
INVTAS	Investment to total assets
EPSG	Earnings per share
DIVSER	Dividents per share
ROA	Return on total assets
OPM	Operating profit margin
ROSF	Return on shareholders funds
SRCE	Sales revenue to capital employed ratio
GPM	Gross profit margin
CR	Current ratio
GEAR	Gearing ratio
DEBTRATIO	Debt ratio
DEPRETIATION	Depretiation ratio
DEBTTOEQUITY	Debt to equity ratio
TLSFU	Total liabilities to shareholders funds
DAC	Discretionary accruals
SP	Dummy variable intimating a measure of small positive profits
LL	Dummy variable intimating a measure of timely loss recognition
OCF	Operating cash flows
CFD	Dummy variable representing the sign of operating cash flows