
The Impact of Accounting Conservatism on Financial Performance in Real Estate Companies Listed on the Vietnam Stock Exchange

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Abstract

This study aimed to identify the impact of accounting conservatism on financial performance in real estate companies listed on the Vietnam Stock Exchange, where the accounting conservatism was measured through the model of Ahmed & Duellman (2007), an approach based on accruals, while the financial performance was measured through the return on assets (ROA), return on equity (ROE), and return on sales (ROS). To achieve the objectives of the study, descriptive and analytical approaches were adopted, where the study was conducted on a sample of 285 real estate enterprises listed on the Vietnam Stock Exchange from 2020 to 2023. The research results show that accounting conservatism has a negative impact on financial performance, with a statistical significance of 1% among the independent variables included in the model. This paper recommends that companies reconsider strict adherence to accounting conservatism principles.

Keywords: *Accounting conservatism; Financial performance; Real estate enterprises; Vietnam stock exchange*

1. Introduction

Accounting conservatism is one of the basic principles of accounting, affecting the recognition, measurement, and presentation of items in the financial statements. Prudence is used to ensure the quality and transparency of financial information. Given the accounting practices and policies that vary from one company to another, and the need for accountants to provide their financial reports honestly, fairly, and impartially, in accordance to it, we find that some of them apply the accounting conservatism policy; prudence and caution, where there are many accounting measurements in cases of doubt and uncertainty, with many measurement's alternatives and methods (Mohd et al., 2020). Accounting conservatism has been a topic of interest in the accounting literature for several years. Ahmed et al. (2002) found that firms facing conflicts over dividend policy tend to use more conservative accounting practices, which in turn is associated with a lower cost of debt. Klein and Marquardt (2006) reported that accounting conservatism is significantly related to accounting losses, real firm performance, and business cycle factors. Krishnan and Visvanathan (2007) examined the association between audit committee directors' accounting expertise and accounting conservatism, finding that financial expertise is linked to this fundamental characteristic of financial reporting. Lafond and Roychowdhury (2008) explored the relationship between managerial ownership and accounting conservatism. Garcia et al. (2009) predicted that firms with stronger corporate governance would exhibit higher levels of accounting conservatism, using discretionary accruals to inform investors about bad news in a timely manner. Gigler et al. (2009) investigated how accounting conservatism affects the efficiency of debt contracts, while Chen et al. (2010) examined the association between borrower and lender state ownership and accounting conservatism for Chinese firms. Overall, the literature suggests that accounting conservatism plays a significant role in various aspects of financial reporting and decision-making, including mitigating conflicts, reducing debt costs, and informing investors about firm performance. Further research is needed to explore the mechanisms through which accounting conservatism influences these outcomes (Ruch & Taylor, 2015).

Enhancing conservatism practice in financial reports is considered one of the most controversial issues in contemporary accounting thought, and it has drawn much attention in the accounting literature. The existing literature indicates that accounting conservatism positively impacts a company's economic profit (Sana'a, 2016). According to Novari et al. (2021), financial report disclosures should adhere to the principle of accounting conservatism. This approach emphasizes the need for managers to exercise caution in identifying errors and fraud while ensuring that all critical factors are clearly presented to investors and other stakeholders. Accounting conservatism requires a substantial level of verification before profits can be officially recognized. In addition, conservatism helps protect the interests of the organization's shareholders, creditors, and stakeholders. However, accounting conservatism faces strong criticism because it conflicts with some qualitative characteristics of

accounting information, such as neutrality, representational faithfulness, and relevance, especially after the concept of fair value has been approved (Sana'a, 2016).

The influence of accounting conservatism on financial performance indicators becomes a requirement in the financial reporting process. Moreover, the relationship between accounting conservatism and financial performance has been the theme of intensive study in developed and developing countries. Therefore, it is necessary to research the practice of accounting conservatism and its effect on the financial performance indicators of real estate enterprises listed on the Vietnam Stock Exchange. Studying the determinants of the influence of accounting conservatism on financial performance is a necessary research topic. There have been several studies conducted, such as in the USA (Ahmed & Duellman, 2007), Japan (Ishida S, 2014), Egypt (I-Habashy, 2019), Nigeria (Ugwunta & Ugwuanyi, 2019), Jordanian (Sana'a, 2016), Vietnam (Phuong Hong & Tra My, 2024), Malaysia (Mohd et al., 2020), Saudi Arabia (Hamdan, 2017), Jordanian (Al-Fasfus et al., 2022). These findings are mostly established in developed countries with a significant economic gap compared to Vietnam.

This research enhances the subject literature by investigating the impact of accounting conservatism on the financial performance indicators in real estate enterprises listed on the Vietnam Stock Exchange, which perform different activities and transactions of a special nature. So, the current research presents a practical and theoretical contribution by examining the impact of applying the conservative approach to the financial performance of Vietnamese real estate companies.

2. Objectives

Through this study, the researcher seeks to achieve the following objectives:

1. Identify the impact of accounting conservatism on the rate of return on equity, return on sales, and return on assets in real estate companies listed on the Vietnam Stock Exchange.
2. Identify accounting conservatism's concept, types, measures, and usage justifications.
3. Clearly outline and apply systematic data analysis procedures to examine the relationship between accounting conservatism and financial performance.

3. Materials and Methods

Hypothesis Development

Policymakers and regulators have assessed the principle of accounting conservatism and its pros and cons. Penman and Zhang (2002) suggest that conservative accounting may lead to biased resource allocation and negatively affect corporate value, ultimately influencing share pricing. Despite the shortcomings of conservative accounting, it also offers certain advantages and benefits that policymakers and regulators may overlook (Watts, 2003). Notably, conservative accounting practices yield cautious financial reports, which can help mitigate the risks associated with inflated earnings and reduce shareholders' equity.

Many studies have dealt with the issue of accounting conservatism in several directions, including Sana'a (2016); Al-Fasfus et al. (2022) study, which found a difference in the ratios of accounting conservatism among companies listed on Amman Stock Exchanges. Ahmed & Duellman (2007) found a negative relation between the percentage of inside directors on the board and conservatism and a positive relation between the rate of a firm's shares owned by outside directors and conservatism. The prior study of Nigeria opposed the results because their findings show a non-significant positive effect between accounting conservatism and firm performance in the Consumer Goods sector. While Mohd et al. (2020) showed that accounting conservatism had a positive association with financial performance. As for the study of Dang and Tran (2020) indicated that financial leverage has a positive effect on accounting conservatism listed firms in Vietnam (Basu, 1997). With regard to investment, the study of Phuong Hong and Tra My (2024) showed that growth opportunities, return on assets, financial leverage, and an uncertain environment have a negative impact on accounting conservatism. Besides, the other five variables of return on equity, sales growth, capital intensity, financial distress, and global diversification have no impact on accounting conservatism in terms of statistical significance. According to Purnama (2019) accounting conservatism has a positive impact of accounting conservatism on the return on assets (ROA). At the same time, it showed that there is no impact of accounting conservatism and intellectual capital on the return on equity (ROE). A literature review proposes that accounting conservatism interests researchers because of its advantages to most stakeholders, for example, shareholders as owners, creditors, managers, regulatory bodies, and researchers themselves:

This study is based on the following main hypothesis:

H₁: There is a statistically significant impact at a significant level ($\alpha \leq 0.05$) for the accounting conservatism on the return on assets of real estate companies that are listed on the Vietnam Stock Exchange.

H₂: There is a statistically significant impact at a significant level ($\alpha \leq 0.05$) for the accounting conservatism on the return on equity of real estate companies that are listed on the Vietnam Stock Exchange.

H₃: There is a statistically significant impact at a significant level ($\alpha \leq 0.05$) for the accounting conservatism on the return on sales of real estate companies that are listed on the Vietnam Stock Exchange.

Control Variables

Size and leverage are firm-specific characteristics that act as the control variables for the study as they are supported and consistent with the empirical studies of Mohd et al. (2020) and Sana'a (2016). Firm size is calculated by the logarithm of total assets (Basu, 1997; Mohd et al., 2020; Sana'a, 2016). Larger firms tend to be more established and possess more information, making them more appealing to analysts than smaller firms. Therefore, controlling for firm size can help reduce information asymmetries and uncertainties regarding the reliability of projected gains. Thus, accounting for leverage in each company aligns with the study's objectives, as it can act as a catalyst for growth results, functioning as a multiplier within the conservatism regression model.

Research model

Based on the review of previous scholars, a model has been advanced to impact of accounting conservatism on corporate financial performance in real estate companies listed in Vietnam as follows:

- (1) $ROA_{it} = \beta_0 + \beta_1 CONACC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + e_{it}$
- (2) $ROE_{it} = \beta_0 + \beta_1 CONACC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + e_{it}$
- (3) $ROS_{it} = \beta_0 + \beta_1 CONACC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + e_{it}$

Table 1. Variable Definitions and Measurement

Variable	Code	Description	Measurements
Dependent variables	ROA	Return on assets	Net Income/Total Asset
	ROE	Return on Equity	Net Income/Equity
	ROS	Return on Sales	Earnings before interest and taxes/Sales revenue
Independent variable	CONACC	Accounting Conservatism	$CONACC = [(Income\ before\ tax\ and\ extraordinary\ items + Depreciation\ expenses - Net\ cash\ flows\ from\ operating\ activities) / Total\ assets] \times (-1)$
Control variables	SIZE	Firm Size	Logarithm of total assets
	LEV	Financial Leverage	Total liabilities / Total assets

Research Data

In this study, data from the Real estate companies listed on the Vietnam Stock Exchange from 2020 to 2023 with 1140 observations were used to examine the impact of accounting conservatism on the financial performance of companies. The data of these companies is collected from their financial statements and the data set from Vietstock, as well as aggregated from the data published on some reputable securities websites such as cafev.vn or cophieu68.com. The study employed panel analysis that included estimating and choosing the best estimation between Pooled OLS, Fixed effect model (FEM), and random effect model (REM). After checking the defects, the study employed feasible general least squares (FGLS) to regress the model.

4. Results and Discussion

Descriptive Statistics

Table 2 shows that the average accounting conservatism (CONACC) is -0.024. This negative value indicates a tendency for firms to adopt more conservative financial reporting, consistent with findings by Basu (1997) and Khan and Watts (2009). Regarding accounting performance, ROA ranges from -192.35% to 106.2% with a mean of 1.38%, and ROE ranges from -507.66% to 599.06% with a mean of 5.50%. Additionally, ROS spans from -258.37% to 31.72% with a mean of -0.29%. Regarding control variables, firm size (SIZE) ranges from 9.84 to 14.82 with a mean of 12.03, leverage (LEV) ranges from 0.004 to 46.69 with a mean of 0.76.

Table 2. Statistical description of the sample for the year 2020 – 2023

Variable	Obs	Mean	Std.dev	Min	Max
SIZE	1.140	12.02992	0.7738043	9.83686	14.82455
LEV	1.140	0.7567558	2.298884	0.0044002	46.69435
CONACC	1.140	-.0242644	0.1718859	-0.7804363	2.172866
ROA	1.140	1.375684	10.83534	-192.35	106.2
ROE	1.140	5.496061	40.72532	-507.66	599.06
ROS	1.140	-0.2943066	9.618632	-258.3686	31.72247

Correlation Analysis

The following Table 3 shows the correlation coefficients between variables. The results show that the correlation coefficient between any pair of independent variables in the model is no less than 0.8, and therefore, multicollinearity is unlikely to occur.

To analyze more carefully, this study used the variance inflation factor (VIF) to test multicollinearity issues. The findings revealed that the variance inflation factor (VIF) values for all independent variables do not exceed 10.00, suggesting no multicollinearity between variables (see Table 4).

Table 3. Results of correlation between key variables

	SIZE	LEV	CONACC	ROA	ROE	ROS
SIZE	1					
LEV	-0.1534	1				
CONACC	-0.1937	0.5539	1			
ROA	0.1916	-0.7424	-0.6677	1		
ROE	0.0461	-0.0007	-0.1052	0.1791	1	
ROS	0.0569	-0.0000	-0.0993	0.0412	0.0192	1

Testing model

The study regressed the panel data of 1140 observations from 2020-2023 by Pooled OLS, FEM, and REM. The Hausman test was used to choose between FEM and REM with a null hypothesis. The study used the Wooldridge test, Modified Wald test, Breusch and Pagan Lagrangian multiplier test, VIF, and F-test to test the defects. The results are summarized in Table 4.



Table 4. The results of defects testing

Defect	Model	Coefficients	Result	Conclusion
Hausman test	ROA		$\chi^2(3) = (b-B)'[(V_b - V_B)^{-1}](b-B) = 176.16$ Prob > $\chi^2 = 0.0000$	FEM model
	ROE		$\chi^2(3) = (b-B)'[(V_b - V_B)^{-1}](b-B) = 3.72$ Prob > $\chi^2 = 0.2934$	REM model
	ROS		$\chi^2(3) = (b-B)'[(V_b - V_B)^{-1}](b-B) = 22.67$ Prob > $\chi^2 = 0.0000$	FEM model
Heteroskedasticity	ROA		$\chi^2(285) = 1.3e+07$ Prob > $\chi^2 = 0.0000$	Heteroskedasticity
	ROE		$\chi^2(285) = 1.4e+09$ Prob > $\chi^2 = 0.0000$	Heteroskedasticity
	ROS		$\chi^2(285) = 1.4e+09$ Prob > $\chi^2 = 0.0000$	Heteroskedasticity
Multicollinearity	ROA		Mean VIF 1.32 VIF < 10	No multicollinearity
	ROE		Mean VIF 1.32 VIF < 10	No multicollinearity
	ROS		Mean VIF 1.12 VIF < 10	No multicollinearity
Autocorrelation	ROA		F(1, 284) = 9.229 Prob > F = 0.0026	Autocorrelation
	ROE		F(1, 284) = 26.427 Prob > F = 0.0000	Autocorrelation
	ROS		F(1, 284) = 0.708 Prob > F = 0.4009	No autocorrelation

In order to detect defects in the model, the study used FGLS. The FGLS results detecting the existence of heteroskedastic and autocorrelation are in Table 5.

Table 5. The results of FGLS regression

Variable	ROA	ROE	ROS
SIZE	0.818*** (0.0936)	1.732*** (0.247)	0.178*** (0.0489)
LEV	-2.941*** (0.303)	1.372*** (0.384)	-0.0688 (0.0838)
CONACC	-9.830*** (0.725)	-16.91*** (1.366)	-1.483*** (0.337)
Cons	-6.652*** (1.123)	-17.09*** (2.933)	-2.000** (0.612)
N	1,140	1,140	1,140

Standard errors in parentheses

* p<0.05, ** p<0.01, *** p<0.001

The panel regression analysis provides critical insights into the relationship between accounting conservatism and financial performance indicators, specifically Return on Sales (ROS), Return on Assets (ROA),

and Return on Equity (ROE). The findings consistently reveal a significant negative impact of accounting conservatism on these performance metrics, underscoring the influence of conservative financial reporting practices on profitability measures in real estate companies listed on the Vietnam Stock Exchange.

The first hypothesis investigated the relationship between accounting conservatism and the return on assets. Regression analysis showed that accounting conservatism negatively and significantly impacts return on assets. The beta value shows that the coefficient is -9.830 with a p-value of 0.000, less than 0.001, suggesting that the relationship is significant at a 1% level. Hence, it can be concluded that accounting conservatism negatively impacts the return on assets. This finding suggests that conservative accounting practices, prioritizing the early recognition of expenses and delayed recognition of revenues, limit the efficient use of assets to generate returns. This result highlights the potential drawback of overly cautious reporting for real estate enterprises, where assets are central to operations. This result leads us to accept the first hypothesis. The second hypothesis examined the relationship between accounting conservatism and the return on equity. Table 5 shows that accounting conservatism negatively and significantly impacts the return on equity. The beta value shows a coefficient of -16.91 with a p-value of 0.000, which means the relationship is significant at a 1% level. Hence, it can be concluded that accounting conservatism negatively impacts the return on equity, and the study's second hypothesis is accepted. Return on Equity measures profitability from shareholders' perspectives, and the reduction indicates that conservative reporting practices may impair perceived financial health and shareholder value. By reducing retained earnings, conservatism may also constrain the capacity for reinvestment and future growth. The third hypothesis investigated the relationship between accounting conservatism and the return on sales. The result of the regression showed that accounting conservatism has a significant negative impact on the return on sales. The beta value showed that the coefficient was -1.483 with a p-value of 0.000, less than 1%, suggesting that the relationship is significant at a 1% level. Accordingly, the third hypothesis is accepted. This suggests that conservatism impacts a firm's ability to convert sales into profits, likely due to higher reported costs or deferred revenue recognition, reducing short-term operational efficiency.

These findings collectively demonstrate that while accounting conservatism enhances prudence and reliability in financial reporting, it can suppress key financial performance indicators in the context of real estate enterprises.

The results diverge from prior studies, such as Ugwunta and Ugwuany (2019) and Sana'a (2016) which suggest that conservatism improves decision-making quality by mitigating risks of overstatement and enhancing investor confidence. Conversely, the findings align with those of Phuong Hong & Tra My (2024), who argue that in the Vietnamese context, conservative practices may hinder reported profitability due to the specific economic and regulatory environment.

5. Conclusion

This study aimed to identify the impact of accounting conservatism on financial performance in Real estate companies listed on the Vietnam Stock Exchange, where the accounting conservatism was measured through the model of Ahmed & Duellman (2007), an approach based on accruals, while the financial performance was measured through the return on equity (ROE), return on assets (ROA) and return on sales (ROS). To achieve the objectives of the study, a descriptive and analytical approach was adopted, and the study was conducted on a sample of 285 real estate enterprises listed on the Vietnam Stock Exchange from 2020 to 2023. According to the results of the analysis, the financial performance of real estate companies listed on the Vietnam Stock Exchange is influenced by accounting conservatism. The findings of this study carry significant implications for various stakeholders, emphasizing the need for a balanced approach to adopting and promoting accounting conservatism. The insights below highlight how managers, policymakers, and investors can leverage these findings to make informed decisions while mitigating the potential downsides of conservative financial practices. Managers are critical in determining the degree of conservatism applied in financial reporting. They should carefully evaluate the trade-offs between conservative accounting and operational performance. While conservatism can effectively reduce the risks of overstatement and enhance financial credibility, it may also hinder short-term profitability and restrict strategic growth opportunities. Managers must find a balance that safeguards the company's reputation without compromising its financial and operational agility. Policymakers must be aware of the unintended consequences of encouraging or mandating conservative accounting practices, particularly their impact on financial performance metrics such as ROA, ROE, and ROS. While conservatism ensures compliance with financial reporting standards and enhances market stability, excessive reliance on this principle could reduce firms'

competitiveness and attractiveness to investors. A balanced regulatory approach that promotes prudence and growth is essential to creating a sustainable business environment. Investors should approach the financial statements of firms employing conservative accounting with caution, recognizing the inherent limitations of these practices. Conservative reporting may understate profitability, leading to misinterpretations of a firm's actual financial health. Understanding the underlying operational performance beyond the reported financial metrics is crucial for making informed investment decisions. By delving deeper into qualitative factors, such as market position and growth potential, investors can gain a more comprehensive view of the firm's value.

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