

## **On the Timeliness and Conservatism in Earnings Per Share**

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### **ABSTRACT**

*This paper through the relationships of earnings yields with the stock price returns, percentage change of betas and actual betas examines the timeliness and conservatism of accounting reporting. The results confirm that there is no timeliness of earnings but there exists a very small degree of conservatism in the three European countries, namely England, Germany and Italy.*

***JEL Classification:*** M41, G15.

***Keywords:*** Timeliness, conservatism, earnings yield, betas

### **1. INTRODUCTION**

This paper analyzes the timeliness and the conservatism of the accounting data and statistical significance tests performed using the t-statistic. To test these hypotheses annual returns of share prices were used, as it can be found in the literature, and also betas (risk) and returns of betas.

According to the term “timeliness”, is meant that the accounting earning per share of a period reflects the financial gain of the same period and in accordance with the term “conservatism”, is meant that the accounting earning per share of a period incorporates asymmetric economic losses in relation to the economic gains.

Initially, it is examined the timeliness and conservatism of the accounting data, which will be presented by a method that takes into account the changes in the exact annual betas (systematic risk) as well as the annual returns of betas. Generally, the difference in this paper is that we control for timeliness and conservatism of the accounting data and we compare the returns of earnings per share to the returns of betas (risk) and the returns of earnings with the betas.

This approach will be linked to the timeliness and conservatism of earnings per share. The estimation of the annual betas can be achieved, using a GARCH (1, 1) model, for the period between 1988 to 2006. The countries under consideration for which the timeliness and conservatism of the accounting data is examined are: Germany, Italy and England.

To verify the existence of timeliness and conservatism of the accounting reports, concerning the published earnings, we have made the following hypotheses, which are tested below:

(1)  $H_0$ : If the accounting reports are not suffering from timeliness, the coefficient  $\beta_1$  should not be statistically significant.

$H_a$ : The opposite is true.

- (2)  $H_0$ : If the accounting reports are not conservative, the coefficient  $\beta_2$  should not be greater than 0, the rate of  $R_{bad}^2/R_{good}^2$  is not going to be greater than 1% and the index  $(\beta_1 + \beta_2)/\beta_1$  should not be greater than one.

$H_a$ : The opposite is true.

Finally, this paper is structured as follows: The second section is referring to earlier literature, which covering the concepts that discussed in this paper. The third section presents the methodology used for examining the relationship between return of earnings and annual stock price returns in order to assess the exact annual beta, the relationship between annual returns of betas and the return of earnings. Then in the fourth section, it is presented the description of the data used, in the fifth section are analyzed the empirical results derived from the analysis of data and in the sixth section are set out the general conclusions.

## 2. PREVIOUS STUDIES

Basu (1997) in her article reviewed the meaning of conservatism and explained it as the fastest display of bad news in earnings than good news. This is due to the earlier acknowledgment of the damage which had not been realized, despite the gains.

The forecast made by Basu was that bad news had a greater influence on earnings than good news. Also, the convergence relationship of earnings-return of stocks is stronger than the convergence relationship of cash flows and stock price returns on available public bad news, compared with the good news. Furthermore, unexpected increases in earnings are likely to be stable, with unexpected reductions in earnings are likely to be temporary. Finally, the abnormal performance per dollar of unexpected earnings is less on the bad news earnings, than on the good news earnings.

Pope and Walker (1999) analyzed the differences of timeliness recognition of income between U.S. and England, following the reports of their financial statements. They presented a formal model, in which the response to reported earnings of changes in market value varies with the change in value due to good or bad news. The model allows the identification and measurement of conservatism in earnings. In particular, Pope and Walker exploring the Basu's remarks, concluded that conservatism in accounting is asymmetric in the timeliness of earnings, i.e. bad news reflected in earnings, faster than good news. Finally, the model of timeliness of earnings was an official display of variable-speed recognition of good and bad news and suggested several ways to measure the conservatism in the recognition of income.

Givoli and Hayn (2000) analyzed the changes in earnings standards, cash flow and increases of accruals for the last four decades. There are many measurements of conservatism proposed by previous studies. These measures were based on the timeliness of earnings, which was due to bad and good news taking into account the characteristics of the distribution of earnings, the index of market-to-book value, etc. These standards were in line with an increase in the maintenance of financial report per year. These findings have applications in accounting environment, regulations of financial information and economic analysis.

Zhang (2000) examined whether conservatism in accounting affects the accounting information. His analysis shows that conservatism in accounting can be described in terms of book stock value, earnings or appreciation of accounting yields. In addition, the capitalized

profits provide, in general, a less biased assessment of the equity capital value rather than the book value. A weighted average book value of the stock and capitalized profits, with the burden on profits to be a convex and increasing function production, give an impartial assessment of the asymptotic value of the stock equity capital. When production is positive, then the carrying value of the stock is negative.

Sarah Taylor and Stephen Taylor (2003) dealt with the Australian market and showed that bad news were reflected in earnings faster than good news, namely whether there is a conservatism in company's earnings. Their results showed that bad news reflected in earnings more quickly than good news, as evidenced by the positive and negative equity returns. Also, the results showed the existence of conservatism through the permanence of asymmetric increases and reductions in earnings. They found limited evidence that the inverse relationship between cash flow and earnings increases is weaker for companies with limited cash flow. This has been related to conservative earnings of accounting reports. The degree to which the annual earnings reflect good or bad news varied significantly in the whole examined period. The stronger relationship between annual profits and returns of shares by bad news, refer to the large companies. Other surveys for conservatism show also some differences on the criteria for large and small companies. The same happens for companies with low and high market to book value indicators.

Tazawa (2003) examined the results of conservatism in Japan and found that the asymmetrical timeliness and permanence of earnings come from the conservatism if cash flow does not have these types of asymmetry. To determine the mechanism of this difference between profits and cash flows, analyzed the results of conservatism in the various components of the earnings' increases. It was also indicated that the conservatism of earnings' increases and non-conservatism of earnings' increases reflect the conservative and free-result of earnings, respectively.

Watts (2003) examined the conservatism in accounting, and referred to the official comprehensive empirical evidence of the existence of conservatism, the rise of conservatism over the years and the alternative explanations of conservatism. A variety of measures was used to control the existence of conservatism or its conservatism increase during a period of time. These measures played an important role in controlling alternative explanations of conservatism, such as the contractility, the litigation, the taxation and the accounting rules. As these different explanations create different assumptions about differences in time series of conservatism, this variety of measures of conservatism makes it possible to distinguish between the above explanations.

Christodoulou, Grambovas and McLeay (2007), using data from the European Union and United States, examined the timeliness of accounting earnings recognizing current and future stock price returns on stock markets. They conclude that financial markets, which are recognized immediately, tend to have temporary effects, as opposed to new financial markets that recognized gradually. They also extended the analysis of asymmetric timeliness of stock price returns and stability of the stock markets in earnings based on the volatility of a company and also its annual stability.

Frankel, Sun and Wang (2007) analyzed the relationship between asymmetric timeliness of earnings and decisions of companies in order to distribute funds to shareholders. They concluded that there was a positive correlation between the asymmetric timeliness of earnings

and sensitivity to asymmetric distributions of shareholders. They found also that companies with more asymmetric accurate earnings had significantly lower distributions to shareholders, particularly when companies were in bad financial situation. They reached to the conclusion that asymmetric timeliness of earnings restricted the distributions of earnings to the shareholders, in particular when the former facilitated in the transfer of those earnings from the bond equity holders.

### 3. METHODOLOGY

#### 3.1 Timeliness of Earnings

Initially, in order to isolate the timeliness of earnings and to examine the relationship between earnings and annual returns of stock prices, we use the following equation:

$$EPS_{i,t}/P_{t-1} = \alpha_0 + \beta_1 R_{i,t} + u_{i,t} \quad (1)$$

where,  $EPS_{i,t}$  are the earnings per share, in the period  $t$ , namely the earnings of a company  $i$ , taking into account the accounting reports.

$P_{t-1}$  is the annual price of a stock in the period  $t - 1$ .

$R_{i,t}$  is the annual stock price return for the period  $t$  for company  $i$ .

$u_{i,t}$  is the error term in the  $t$  period.

Then, in order to estimate the exact annual beta is used the known equation of the GARCH (1, 1) model, which has the following form:

$$R_t = \alpha_0 + \sum_{i=1}^n \alpha_i R_{t-n} + \varepsilon_t \quad (2)$$

$$h_t = Var(\varepsilon_t) = \beta_0 + \sum_{p=1}^n \beta_p ARCH_{t-p} + \sum_{q=1}^n \beta_q GARCH_{t-q} \quad (3)$$

(The restrictive parameters,  $\beta_0 > 0$ ,  $\beta_p \geq 0$ ,  $\beta_q \geq 0$  and  $\beta_p + \beta_q < 1$  confirm that the stochastic process ( $\varepsilon_t$ ) is well defined (e.g.  $h_t > 0 \forall t$ ) and that the covariance is stagnant with  $E(\varepsilon_t) = 0$ ,  $Var(\varepsilon_t) = h$ , and  $Cov(\varepsilon_t, \varepsilon_s) = 0$ ).

In particular, the ARCH coefficients were used, from equation (3), as the exact annual betas, in order to assess the following equation, which is something new in the literature:

$$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \beta_1 Beta_{i,t} + u_{i,t} \quad (4)$$

where,  $EPS_{i,t}$  are the earnings per share, in the period  $t$ , namely the earnings of the company  $i$ , as they are taken into account in the accounting reports

$BETA_{t-1}$  is the exact annual beta or equivalently the coefficients of the values of the ARCH parameter as they have been estimated by the GARCH model of equation (3), in the period  $t - 1$ .

$Beta_{i,t}$  is the exact annual beta or differently the coefficients of the ARCH where they have been estimated by the GARCH model of equation (3), in the period  $t$ .

$u_{i,t}$  is the error term in the  $t$  period.

Finally, we calculate the percentage change of betas in order to examine the relationship between annual percentage changes in betas and earnings yields, after dividing earnings per share in the previous period with the beta in the current period. Specifically, it is used the following equation, which is also something new in the literature:

$$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \beta_1 RBeta_{i,t} + u_{i,t} \quad (5)$$

where,  $EPS_{i,t}$  are the earnings per share, in the period  $t$ , namely the earnings of the company  $i$ , as they are taken into account in the accounting reports.

$BETA_{t-1}$  is the exact annual beta or equivalently the coefficients of the ARCH parameter where they have been estimated by the GARCH model of equation (3), in the period  $t-1$ .

$RBeta_{i,t}$  is the percentage change of betas or equivalently the first difference of the logarithm of coefficients of the stock price of ARCH type, where, they have been estimated by the GARCH model of equation (3), in the period  $t$ .

$u_{i,t}$  is the error term in the  $t$  period.

### 3.2 Conservatism in Earnings

Initially, it has been estimated the equation,

$$EPS_{i,t}/P_{t-1} = \alpha_0 + \alpha_1 D_{i,t} + \beta_1 R_{i,t} + \beta_2 R_{i,t} D_{i,t} + u_{i,t} \quad (6)$$

where,  $EPS_{i,t}$  are the earnings per share, in the period  $t$ , namely the earnings of the company  $i$ , as they are taken into account in the accounting reports.

$P_{t-1}$  is the annual stock price in the period  $t-1$ .

$D_{i,t}$  is the dummy variable that take the value of 1 for negative annual stock price returns and 0 for the other cases.

$R_{i,t}$  is the annual stock price return, for the period  $t$  for the company  $i$ .

$u_{i,t}$  is the error term in the  $t$  period.

Then, it was used the GARCH (1, 1) equation to calculate the exact values of annual betas. Specifically, were used the following equations:

$$R_t = \alpha_0 + \sum_{i=1}^n \alpha_i R_{t-i} + \varepsilon_t \quad (7)$$

$$h_t = Var(\varepsilon_t) = \beta_0 + \sum_{p=1}^n \beta_p ARCH_{t-p} + \sum_{q=1}^n \beta_q GARCH_{t-q} \quad (8)$$

(The restrictive parameters,  $\beta_0 > 0$ ,  $\beta_p \geq 0$ ,  $\beta_q \geq 0$  and  $\beta_p + \beta_q < 1$  confirm that the stochastic process ( $\varepsilon_t$ ) is well defined (e.g.  $h_t > 0 \forall t$ ) and that the covariance is stagnant with,  $E(\varepsilon_t) = 0$ ,  $Var(\varepsilon_t) = h_t$ , and  $Cov(\varepsilon_t, \varepsilon_s) = 0$ ).

Our proposed approach uses the values from the ARCH type parameters which have been taken from the above equations in order to determine the annual betas. The new model has the following form:

$$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \alpha_1 D_{i,t} + \beta_1 Beta_{i,t} + \beta_2 Beta_{i,t} D_{i,t} + u_{i,t} \quad (9)$$

where,  $EPS_{i,t}$  are the earnings per share, in the period  $t$ , namely the earnings of the company  $i$ , as they are taken into account in the accounting reports.

$BETA_{t-1}$  is the exact annual beta or equivalently the coefficients of the ARCH parameter where they have been estimated by the GARCH model of equation (3), in the period  $t - 1$ .

$D_{i,t}$  is the dummy variable which takes the value of 1 for negative annual returns of stock prices and 0 otherwise for company  $i$ .

$u_{i,t}$  is the error term in the period  $t$ .

The third and final step is the estimation of the following equation:

$$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \alpha_1 D_{i,t} + \beta_1 RBeta_{i,t} + \beta_2 RBeta_{i,t} D_{i,t} + u_{i,t} \quad (10)$$

where,  $EPS_{i,t}$  are the earnings per share, in the period  $t$ , namely the earnings of the company  $i$ , as they are taken into account in the accounting reports.

$BETA_{t-1}$  is the exact annual beta or equivalently the coefficients of the ARCH parameter where they have been estimated by the GARCH model of equation (3), in the period  $t - 1$ .

$D_{i,t}$  is the dummy variable which takes the value of 1 for negative annual returns of stock prices and 0 otherwise for the  $i$  company.

$RBETA_{t-1}$  is the percentage change of the exact annual beta in the period  $t - 1$ .

$u_{t-1}$  is the error term in the period  $t$ .

The estimation of the above equations (6, 9, 10) will be a first test for the conservative part of the accounting information data.

#### 4. DESCRIPTION OF THE DATA

The sample consists of 44 European cross-listed shares and contains data for a period from 1988 to 2006. In particular, we collected the annual stock prices and earnings per share (EPS) from the codes 254 and 211 from Datastream. Then, running a GARCH model, we estimated the exact annual betas for the daily equity returns, from which we used the volatility factor of the previous day, and calculated the first logarithmic difference of annual betas, which gave us the percentage change of betas. We, then, divided the earnings per share data for the codes 254 and 211 of Datastream with the exact annual betas of the previous year, as derived from the estimate GARCH model in order to re-assess the parameter of earnings yield.

**Table 1**  
**Number of Companies for the Net Earnings Per Share (211 and 254)**

	<i>Net EPS (211)</i> <i>Number of Companies</i>	<i>Net EPS (254)</i> <i>Number of Companies</i>
England	19	19
Germany	15	15
Italy	10	10
Total	44	44

*Note:* The net EPS (211) and (254) is the net earnings per share for the codes 211 and 254 from Datastream, respectively.

## 5. EMPIRICAL RESULTS

### 5.1 Timeliness of Earnings

Initially, the existence of timeliness of accounting reports is examined, concerning the published earnings of shares, checking the following hypothesis, which is referred to the equations (1), (4) and (5):

$H_0$ : If the accounting reports are not timeliness, the coefficient of  $\beta_1$  should not be statistically significant.

$H_a$ : The opposite is true.

#### 5.1.1 Results for England, Germany and Italy

The existence of timeliness for some of the more developed countries of Europe, such as the UK, Germany and Italy, is developed according to the results obtained from Table 2. In the first case, it appears the coefficient of share price returns for both *EPS* (211), and *EPS* (254), with values of 0.284 and 0.593, respectively are not statistically significant, since the *t*-statistic is 0.58 and 0.69 respectively for both cases at 5% significance level. The adjusted  $R^2$  is zero for the above two codes. Thus, the conclusion for both cases of earnings per share, specifically for the 211 item and for the 254 item of Datastream, is that there is no timeliness of accounting reports, since in both cases, the rate of  $\beta_1$  is not statistically significant.

**Table 2**  
**Timeliness in Earnings for England, Italy and Germany**

	$\alpha_0$	$\beta_1$	Adjusted $R^2$ (%)
<i>A Case: Earnings yield in relation to stock price returns:</i>			
$EPS_{i,t}/P_{t-1} = \alpha_0 + \beta_1 R_{i,t} + u_{i,t}$			
<i>EPS</i> (211)	2,05*	0,284	
	(12,50)	(0,58)	0
<i>EPS</i> (254)	2,02*	0,593	
	(6,99)	(0,69)	0
<i>B Case: Earnings yield in relation to the percentage change of 'betas':</i>			
$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \beta_1 RBeta_{i,t} + u_{i,t}$			
<i>EPS</i> (211)	16,0	3,69	
	(1,08)	(0,47)	0
<i>EPS</i> (254)	11,8	-0,37	
	(0,80)	(-0,04)	0
<i>C Case: Earnings yield in relation to 'betas':</i>			
$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \beta_1 Beta_{i,t} + u_{i,t}$			
<i>EPS</i> (211)	32,1	-41,5	
	(1,71)	(-1,40)	0,2
<i>EPS</i> (254)	27,2	-40,3	
	(1,47)	(-1,37)	0,2

*Note:* (1) The numbers in parentheses indicate the *t*-statistic (2) \* indicates significance at 5%. (3)  $R_{i,t}$  is the return of a company for a period of 12 years,  $RBeta_{i,t}$  is the percentage change of the beta for a period of 12 years and  $Beta_{i,t}$  is the exact value of beta for a period of 12 years.

The relationship between earnings yields and percentage change of betas, as analyzed in the second case, produces similar results as in the first case. For earnings per share item 211 of Datastream, the betas' percentage changes are not statistically significant with a  $t$ -statistic of 0.47. For earnings per share Datastream item 254, the rate of percentage change of betas is  $-0.37$  which is not statistically significant meaning that there is no timeliness in earnings. Regarding the adjusted  $R^2$  this is 0 for both cases. In conclusion for  $EPS$  (211), there is no timeliness in accounting reports because the rate of  $\beta_1$  is not statistically significant. For  $EPS$  (254), it is observed that there is no timeliness in earnings as the coefficient of  $\beta_1$  is not statistically significant.

Finally, the relationship between the earnings yields and the exact betas in the third case shows that in both cases ( $EPS$  (211) and  $EPS$  (254)) the rate of timeliness of earnings is not statistically significant, with values  $-41.5$  ( $t = -1,40$ ) for  $EPS$  (211) and  $-40.3$  ( $t = -1,37$ ) for  $EPS$  (254). The adjusted  $R^2$  for both cases is equal to 0.2%. In this case, there is no timeliness in accounting reports of companies and specifically in earnings, both for  $EPS$  (211) and  $EPS$  (254). However, the results from a statistical point of view are slightly better in the latter case than in the previous two cases.

## 5.2 Conservatism in Earnings

This section tests the hypothesis for the presence of conservatism in accounting reports concerning the publication of earnings. The hypotheses for the equations (6), (9) and (10) are :

$H_0$ : If the accounting reports are conservative, it is concluded that the coefficient of  $\beta_2$  should not be greater than 0, the ratio  $R_{bad}^2/R_{good}^2$  is not greater than 1% and the rate of coefficients  $(\beta_1 + \beta_2)/\beta_1$  should not be greater than one.

$H_a$ : The opposite is true.

### 5.2.1 Results for England, Germany and Italy

Table 8 refers to the accounting conservatism of company reports with respect to earnings in three economically important countries of Europe, England, Germany and Italy. In the first case, it is examined the relationship between earnings yields and stock price returns. There, the coefficient of  $\beta_2$  is greater than 0, showing that there is conservatism in accounting reports. The ratio of  $R_{bad}^2/R_{good}^2$  is not greater than 1%, and the indicator of coefficients of  $(\beta_1 + \beta_2)/\beta_1$  is less than one for both cases showing that there is no conservatism in the accounting reports of companies.

Therefore, the two of the three components of conservatism show that there is no conservatism in the publication of earnings for the three countries under examination.

In the second case, we examined the earnings yield in relation to the percentage change of betas, and found no conservatism in earnings for the cases of earnings per share ( $EPS$  211), since it appeared that the coefficient of  $\beta_2$  is less than 0, the ratio of  $R_{bad}^2/R_{good}^2$  is 1% and the ratio of coefficients of  $(\beta_1 + \beta_2)/\beta_1$  is less than one. As far as the earnings per share ( $EPS$  254) are concerned, it appears that the coefficient of  $\beta_2$  is greater than 0, i.e. there is conservatism in earnings, while the ratio of  $R_{bad}^2/R_{good}^2$  is 1% and the index of coefficients of  $(\beta_1 + \beta_2)/\beta_1$  is less



than one showing that there is no conservatism in earnings for the one of the above two components. Therefore, the two of the three components of conservatism show that there is no conservatism in the publication of earnings.

**Table 3**  
**Conservatism in Earnings for England, Germany and Italy**

	$\alpha_0$	$\alpha_1$	$\beta_1$	$\beta_2$	Adjusted $R^2$ (%)	$(\beta_1 + \beta_2)/\beta_1$	$(R_{bad}^2/R_{good}^2)(\%)$
<i>A Case: Earnings yield in relation to stock price returns:</i>							
$EPS_{i,t}/P_{t-1} = \alpha_0 + \alpha_1 D_{i,t} + \beta_1 R_{i,t} + \beta_2 R_{i,t} D_{i,t} + u_{i,t}$							
EPS (211)	2,48* (8,02)	-0,505 (-1,06)	-0,931 (-1,05)	1,63 (1,13)	0	-0,75	1
EPS (254)	2,08* (3,82)	0,681 (0,81)	-0,01 (-0,01)	3,21 (1,26)	0	-320	1
<i>B Case: Earnings yield in relation to the percentage change of 'betas':</i>							
$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \alpha_1 D_{i,t} + \beta_1 RBeta_{i,t} + \beta_2 RBeta_{i,t} D_{i,t} + u_{i,t}$							
EPS (211)	17,0 (0,91)	-11,7 (-0,32)	6,3 (0,52)	-6,9 (-0,40)	0	-0,09	1
EPS (254)	14,6 (0,79)	-9,2 (-0,23)	-1,8 (-0,14)	0,6 (0,03)	0	0,66	1
<i>C Case: Earnings yield in relation to 'betas':</i>							
$EPS_{i,t}/BETA_{t-1} = \alpha_0 + \alpha_1 D_{i,t} + \beta_1 Beta_{i,t} + \beta_2 Beta_{i,t} D_{i,t} + u_{i,t}$							
EPS (211)	-5,8 (-0,15)	16,8 (0,28)	14,6 (0,25)	-152 (-1,19)	0,2	-9,4	0,24
EPS (254)	-14,0 (-0,36)	19,7 (0,33)	21,0 (0,37)	-160 (-1,29)	0,2	-6,6	1

*Note:* (1) \* indicates significance at 5%. (2)  $EPS_{i,t}$  is the earnings per share of company's  $i$  the financial year  $t$ ,  $P_{t-1}$  is the price per share at the beginning of the year,  $R_{i,t}$  is the stock price return of a company over a period of 12 years,  $RBeta_{i,t}$  is the percentage change of beta for the period of 12 years,  $Beta_{i,t}$  is the exact value of the beta for the period of 12 years,  $D_{i,t}$  is a dummy variable, which is equal to 1 if the  $R_{i,t}$  is negative and 0 otherwise. (3) If accounting reporting is conservatism, the coefficient of  $\beta_2$  should be greater than 0, the index of  $(R_{bad}^2/R_{good}^2)(\%)$  should be greater than 1% and the index of coefficients of  $(\beta_1 + \beta_2)/\beta_1$  should be greater than 1. (4) The numbers in parentheses indicate the values of the  $t$ -statistic.

Finally, in the third case, we examined the earnings' yields in relation to betas, and found no conservatism in earnings for both items of earnings per share ( $EPS$  211) and  $EPS$  254), as the coefficient of  $\beta_2$  is less than 0, the ratio of  $R_{bad}^2/R_{good}^2$  is 1 % and 0.24% and this ratio is less than 1% as well as the index of the coefficients of  $(\beta_1 + \beta_2)/\beta_1$  for both items are less than one.

## 6. CONCLUSIONS

In the article, we analysed the relationship between earnings yields, betas' percentage changes and actual betas with the annual stock price returns. In particular, we tested for conservatism and timeliness of accounting reports, concerning the publication of earnings in the European countries of England, Germany and Italy.

Clearly, the results show that there is no timeliness of earnings and there is no comparison of earnings yields to the percentage change of betas for the companies of England, Germany and Italy for *EPS* (254 and 211). The comparison of earnings yields and stock price returns show that there is in no timeliness of earnings. Finally, the relationship between earnings yields and betas shows no timeliness in earnings in the cases of England, Germany and Italy.

The conservatism in earnings has been analysed by the relationship between earnings yields and percentage change of betas. Conservatism has not been found for the *EPS* (211) for the three components, whereas for the *EPS* (254) for the two of them. The control of earnings yields in relation to the actual beta shows that there is no conservatism in the results of England, Germany and Italy for all three components of *EPS* for the items of 211 and 254. Finally, the relationship of earnings yields and stock price returns indicates that there is no conservatism in earnings in most of the coefficient components of *EPS* (211) and *EPS* (254), for England, Germany and Italy.

The conclusion that emerges here is that the way in which accounting information is published, it may be incorrect and the aim of this article was to give an alternative and less biased study of accounting information.

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