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onservatism and its counterpart in optimism may be the most long-standing and one of the most important principle of accounting valuation. In simple terms, conservatism is an accounting value that requires a high degree of verification before claiming profit while recognizing all potential losses at their maximum possible value. Holding strict criteria for the recognition of revenue is the most prevalent expression of conservatism in accounting.

In practice, conservatism can lead to both more accurate and yet occasionally misleading financial statements. Suppose when considering doubtful accounts--accounts deemed unlikely to be paid in full, (e.g. U.S. sub-prime mortgages during the global economic crisis of 2008) the amount that will go unpaid is overestimated. This can lead to misleading statement of earnings in a later period when a larger portion of these doubtful accounts is paid than was projected by a conservative outlook. This may give a misleading picture of financial health for that period when measured against projected profits, or profits from previous periods. This outlook can be equated with pessimism, and can often give a more accurate picture of recoverable receivables than an optimistic one.

Optimism is the tendency to express confidence: in practice this makes it an opposite approach to valuing receivables wherein unpaid accounts are valued at their maximums. Extreme accounting optimism (to the point of abject dishonesty) is often cited as the reason for the collapse of Enron cooperation in 2003. Charles Munger, Vice Chairman of Berkshire Hathaway, said that a system that allows widespread optimism without forcing conservatism is like *"(…) retail system without cash registers...In the long term, huge public benefits are to be gained, with almost no public dangers, from pessimistic accounting, while optimistic accounting is a public menace. (Munger, Charles, Optimism Has No Place in Accounting. March, 2010 http://mungerisms.blogspot.com/2010/03/optimism-has-no-place-in-accounting.html (viewed May 18, 2011) (…)"*

Strong conservatism seems to be associated with more-developed financial markets, in Japan and some European countries (France, Germany and Switzerland), however The United States and United Kingdom are exceptions. Generally, conservatism appears to be linked to certain social values, *“(…) Most closely with the uncertainty avoidance [cultural] dimension and short-term versus long-term orientations... there also seems to be a link...between high levels of individualism and masculinity...(where) an emphasis on individual achievement and performance is likely to foster a less conservative approach to measurement. (Lee H. Radebaug, Sidney J. Gray, Ervin L. Black. International Accounting and Multinational Enterprises John Wiley & Sons, USA 2011. Page 56-62)” (…)”.*

*Carol Ortega Algarra.*