

INVESTIGATING THE RELATIONSHIP BETWEEN EARNINGS MANAGEMENT AND ACCOUNTING CONSERVATISM IN ACCEPTED COMPANIES IN TEHRAN STOCK EXCHANGE

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Abstract: *The purpose of this Research is investigating the relationship between earnings management and concentration of ownership with conservative accounting of companies listed on the Stock Exchange in Tehran in return when is 2008 to 2013. This study consisted of two statistical populations; the initial statistical population consisted of a sample size with 96 member companies of Tehran stock exchange and secondary statistical population, including a sample of 49 members from loss money companies of Tehran Stock Exchange. The present study in terms of purpose is applied research and according to the type of data and the methods of analysis, the method of "combination data / integration" are used. This study is consists of two hypotheses. The research findings in the first statistical population, for the first hypothesis show that there is positive relationship between earnings management and accounting conservatism. Also for secondary statistical population that it is including of non-losing money companies, this above hypothesis was tested and the results findings obtained same as research findings in non-losing companies had achieved.*

Keywords: *Earnings management, corporate governance, accounting conservatism.*

INTRODUCTION

Conservatism can be a mechanism for controlling manager's incentives considered for selection of beneficiaries (Shorozi and Khandozi, 2008). One of the methods sometimes used to assemble information desired state companies, management is profit. Earnings management to public intervention in the management of the process of determining profits, often in line with the desired objectives of management is defined Wahlen and Healy, 2003). Management of the company in favor of management clearly understands that the aim of this work, holding firm against the interests of the owners of profit. Even in other cases due to earnings management in order to earn bonuses allocated to managers holding more of the company's owners profit (Ansari et al., 2013).

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The need to prepare to join the WTO as well as regular interaction with international financial institutions including the World Bank and the IMF, without doubt, the use of corporate governance in Iran in the near future will be manifested as an absolute necessity. On this basis, and considering the subjects mentioned, in this study the relationship between earnings management and accounting conservatism is checked.

RESEARCH PROBLEM

The growing expansion of economic activity and the growing complexity on the one hand and the need for accurate information regarding the accounting and financial reporting on the other hand, leads to important institutional change in thinking and accounting theories and analytical methods and the emergence of the modern management accounting. One of the most important of these changes is the emphasis more on profit and loss that was previously on the balance sheet, it would lead to something called the earnings management. Earnings management as a process of steps consciously accepted accounting principles for profit reported in the range of target profit level is defined (Mollanazari, Karimi Zand, 2008).

In the event that management uses earnings management, are intended to convey information and facts that represent the true value of the business unit, opponents cannot be wrong, but the concern is created when the object managers of earnings management, as a factor to mislead consumers about company performance. On the other hand, conservative financial reporting is one of the distinctive features, can be used as an approach to deal with uncertainty in the financial reporting process was challenging, although the place is not in accounting principles, but it can have a significant impact on the valuation of assets and the determination of net income (Adhami, 2008). Conservatism commonly used term means that accountants need for assets and revenues, the lowest amount possible and for liabilities and charges may report the largest amount (Parsaeian, 2007).

Evidence suggests conservatism is result of asymmetric requirements for recognition of economic gains and losses resulting in the financial statements that cause financial losses accountants in relation to more timely identification and reflect gains (Basu (1997). Watts says one of the important roles of conservatism limit opportunistic behavior of financial reporting as well as neutralize and eliminate profits imposed on financial reporting by profit and profit-driven.

Specifically with regard to the these subjects presented, the first objective is to describe empirically the relationship between earnings management and accounting conservatism in the Tehran Stock Exchange listed companies, Also we will consider the research hypotheses testing on the two statistical population, once in total of Tehran Stock Exchange companies and once time we will consider in the losing money companies of Tehran Stock Exchange.

Research Objectives

1. To identify the relationship between earnings management and Accounting conservatism
2. To investigate the relationship between earnings management and accounting conservatism in loss money companies

Research Hypotheses

1. There is significant relationship between earnings management and Accounting conservatism
2. There is significant relationship between earnings management and Accounting conservatism in loss money companies

RESEARCH BACKGROUND

Yoon and Miller (2002), earnings management in 249 Korean companies investigated and concluded that the firms surveyed for this earnings management is done using discretionary accruals. This is done especially when the companies mentioned in the research, cash flow from operations reflects the poor performance of the company. The study suggests that the market will react positively to the changes in net profit, but this is a reaction to changes in accruals negatively.

Zhou and Lebou (2006), in the research found that companies that offer conservative financial reporting could have more earnings management behavior. Against Zhou, conservative financial reporting companies provide less pay to benefit management.

Janto Hamann (2008), in a study titled goodwill earnings management using the change in the law, which states that the use of the Australian Accounting Standards Board Statement No. 3 as a business combination from January 2005 (when the transition Australia toward international financial reporting standards) goodwill accounting changed. Our findings suggest that managers of most companies with goodwill, the profit on the upside management and to do so, especially in long-term accruals or non-recorded goodwill impairment loss (especially when forced to use this method) is used.

Seyed zulfaghar Alishah et al. (2009), a study entitled "Corporate governance and earnings management of listed companies in Pakistan" did. They used the modified Jones model discretionary accruals were calculated and regression test for this hypothesis and concluded that the quality of corporate governance is positively associated with earnings management. One of the reasons for this result is disclosure of corporate governance practices provided expressed by companies.

Garsia lara et al. (2010), the relationship between accounting conservatism and efficiency of investment companies examined. The evidence suggests that there is low negative correlation between conservatism and more investment criteria and there is a positive relationship between investment conservatism and profitability. So companies have more conservative investments, deal more efficient and more profitable investments.

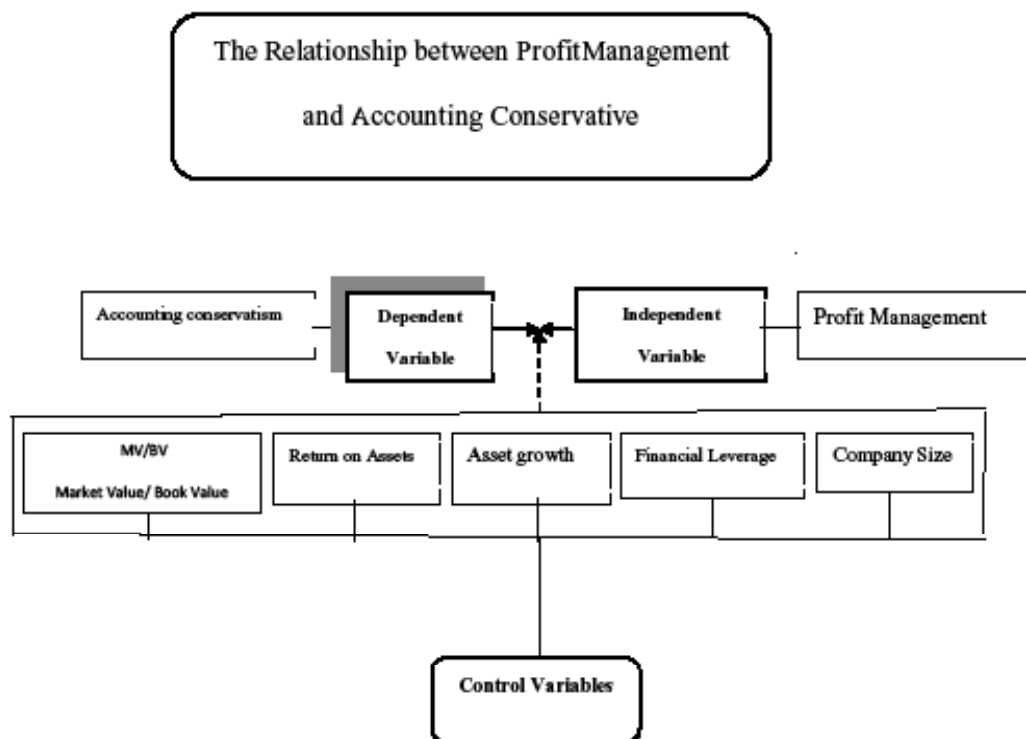
Etamasa et al. (2012), in Japan concluded that accounting conservatism negatively associated with executive compensation. They also found this relationship in an institution with multiple reward of interest is higher.

Perry Chalaki (2009), in a study entitled "The relationship between characteristics of corporate governance and earnings management in listed companies in Tehran Stock Exchange", states that after examining the relationship between characteristics of corporate governance and earnings management in listed companies Tehran Stock Exchange, the following results were obtained. There is a significant negative relationship between institutional ownership and earnings management between board independence and earnings management. In addition, there is no relationship between other aspects of corporate governance (ownership concentration, penetration CEO duality Director, board size, reliance on debt and term of office of Director on the board) and profit management.

Reza John Johnny (2011), in a study entitled "Study of the relationship management and profitability of listed companies in Tehran Stock Exchange" stating that the evidence of this phenomenon in Tehran Stock Exchange provides smoothing and earnings management. The results show that companies that have earnings management than firms that do not benefit management, at the level of operating profit and net profit weaker performance, the level of pre-tax profit and net profit growth, net income in size finally bigger and have higher dividend rate in earnings per share.

Nahandi et al. (2012), a study entitled impact of corporate governance on the conservatism of financial reporting that their findings evidence suggests that institutional ownership, concentration of ownership and independence of board members has no impact on the conservatism in financial reporting. However, in the period that the audit firm has been auditing organization, financial reporting, there are less conservative. BaniMahd et al. (2014) examine the relationship between accounting conservatism and reward their management. They found that there is a negative relationship between accounting conservatism and reward management. The results show a positive relationship between firm size and profitability management bonuses. The research results are a significant relationship between debt management and change management with bonuses not approved.

Conceptual Model



RESEARCH METHODOLOGY

In this research, “earnings management” as independent variable and “accounting conservative” as dependent variable has been considered. This study in terms of purpose is applied research. Regarding the method of inference, this research is descriptive - analysis. Regarding the type of study design, current research is (causal-comparative) Ex-Post Facto Research.

STATISTICAL POPULATION

In this study, a population of primary and secondary population as a result of restrictions, we have in hand. Primary’s Statistical population of this research consisted of all accepted firms in Tehran Stock Exchange. These limitations include the following basic statistical society, but for the population of secondary a series of restrictions removed elementary population finally, with regard to restrictions for initial population of 96 companies were identified. The number of companies

during the period of loss was 49, the total (145 = 96 + 49), company; all the samples will be taken into account. It should be noted that the sample size in this study is the population. It should be noted that the sample size in this study is same statistical population.

The Methods of Statistical Analysis and Hypotheses Testing

In this study, according to the type of data and methods of statistical, three methods of Cross-sectional, Time-series and Panel/Pool have been used.

Testing the Hypotheses

First Hypothesis

There is significant relationship between earnings management and Accounting conservatism.

Amount of F-Limer statistics probability in Table 1 is less than 5% significance level and therefore, for testing above hypothesis, using the method of Pool is excluded. Amount of Hausman statistics probability is more than significance level of 5%. Therefore, there is no enough reason to reject the Random effects pattern and for testing the first hypothesis use by Random affects pattern.

Table 1
Results of testing the F-Limer and Husman

<i>Select data and template</i>	<i>Test</i>	<i>Amount of Testing statistic</i>	<i>Degree of freedom</i>	<i>Test statistic</i>
Pool data against Panel data	F-Limer	25.86	96.576	0.0011
Fixed effects model against the Random effects model	Hausman	11	33.11	0.0856

Random-affects regression model of combined effect of earnings management on accounting conservatism is positive (0.015) and according to the statistics probability of T (0.0356) it is significant. This subject shows that there is significant effect between profit management on accounting conservatism. Other Results of this research show that there is significant and positive effect between Company Size and Financial Leverage on accounting conservatism. Also there is significant and negative effect between "Return on Assets" and "Assets growth ratio" on "accounting conservatism" and there is no significant effect between "Market Value / Book Value" on "accounting conservatism". Results related to F statistics show that generally the model was significant and according to the

statistics Durbin-Watson, there is no any correlation problem. In addition, the results of related to the adjusted coefficient of determination show that 451% of companies' conservatism changes were under affecting of independence and control variables of this research. According to significant of affecting the profit management on accounting conservatism, the first hypothesis is not rejected and it is confirmed.

Table 2
Random-affects regression model of combined effect of profit management on accounting conservatism

$E_{it} = \alpha_0 + \beta_1 TAC_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 Aint_{it} + \beta_5 MBV_{it} + \beta_6 ROA_{it} + \varepsilon_{it}$				<i>Model</i>
<i>Variables</i>	<i>Regression coefficients</i>	<i>Amount of T-statistics</i>	<i>Probability of T-statistics</i>	
Constant	1.7	1.77	0.794	
Profit management	0.015	2.22	0.0356	
Company size	0.036	2.36	0.047	
Financial Leverage	0.024	2.53	0.0342	
Asset growth Ratio	0.0498	2.00	0.049	
Market value/ Book Value	-0.01	2.21	0.0298	
Return on Assets	0.341	1.08	0.198	
Determination coefficient	Adjusted determination coefficient	Probability of F statistics	Durbin-Watson statistic	
0.513	0.451	0.0011	1.97	

Second Hypothesis Testing

There is significant relationship between earnings management and Accounting conservatism in loss money companies.

Amount of F-Limer statistics probability in Table 3 is less than significance level of 5% and therefore, for testing the above hypothesis, using the method of panel data is excluded. Amount of Hausman statistics probability is less than significance level of 5%. Therefore, there is no enough reason to reject of the Fixed-effects pattern and for testing the second hypothesis, this research uses by Fixed affects pattern.

Table 3
Results of testing the F-Limer and Hausman

Select data and template	Test	Amount of Testing statistic	Degree of freedom	Test statistic
Pool data against Panel data	F-Limer	2.21	49.294	0.0125
Fixed effects model against the Random effects model	Hausman	31.2	11	0.0121

Fixed-affects regression model of combined effect of profit management on accounting conservatism in loss money companies is positive (0.0482) and according to the statistics probability of T (0.0479) it is significant. This subject shows that there is little impact between profit management on accounting conservatism in loss money companies.

Table 4
Fixed-affects regression model of combined effect of profit management on accounting conservatism in loss money companies

$E_{it} = \alpha_0 + \beta_1 TAC_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 Aint_{it} + \beta_5 MBV_{it} + \beta_6 ROA_{it} + \varepsilon_{it}$				Model
Variables	Regression coefficients	Amount of T-statistics	Probability of T-statistics	
Constant	-0.15	-1.19	0.2520	
profit management	0.0482	2.07	0.0479	
Company size	-0.017	2.97	0.0436	
Financial Leverage	0.139	1.43	0.347	
Asset growth Ratio	-0.043	2.17	0.0187	
Market value/ Book Value	0.033	2.29	0.0319	
Return on Assets	0.172	1.36	0.1376	
Coefficient of determination	Determination coefficient Adjusted	Probability of F statistics	Durbin-Watson statistic	
0.516	0.478	0.0125	2.03	

Other Results of this research show that there is significant and positive effect between accounting conservatism in loss money companies and Company Size and

there is no significant effect between variables extant and accounting conservatism in loss money companies. Results related to F statistics show that generally the model was significant and according to the statistics Durbin - Watson, there is no any correlation problem. In addition, the results of related to the adjusted coefficient of determination show that around 478% of conservatism changes in loss money companies were under affecting of amount of profit management and control variables. According to significant of affecting the profit management on accounting conservatism in loss money companies, the second hypothesis is not rejected and it is confirmed.

Summary of Research Findings and Hypotheses

First Hypothesis

There is significant relationship between earnings management and Accounting conservatism.

Earnings management occurs when managers of private judgment in financial reporting and structure their transactions. And aim to change financial reports to mislead stakeholders. By definition Basu, conservatism means more timely reaction of accounting profit to bad news is that earnings show earnings sensitivity to negative stock returns than positive returns at a time. Since the rise of conservatism, accrual-based earnings management decreases and managers to manipulate earnings management to manipulate real activities act. In fact, managers have an incentive to manipulate earnings continue to show good company status but since the rise of conservatism is limited to manipulate accounting numbers of managers to do real work attempting to manipulate the earnings management. In fact, with increasing the level of conservatism, then profit management also will be increased. The results of this Hypothesis is agree with studies of Kouhen and ZaraRoeen (2010) and is not agree with the studies of Garsia et al. (2012) and Ansari et al. (2013).

Second Hypothesis

There is significant relationship between earnings management and Accounting conservatism in loss money companies.

Managers of bankrupt companies to maintain their market to change profit and loss items are crafted so this way they can achieve their objectives. So they profit management companies to provide less conservative reporting but the result of this study is not in accordance with this. The result of this Hypothesis is not agreed with study of Zheo (2008) and Kangar Loei et al. (2013).

CONCLUSION

One of the most important tools to control and reduce agency costs using the mechanisms of corporate governance. The conservatism can impact in different ways on Corporate Governance. According to Basu definition, conservatism means more timely reaction of accounting profit to bad news that shows sensitivity of accounting earnings to negative returns ratio positive returns of stock at a time.

In this research also determined that there is positive relationship between earnings management and accounting conservatism both in losing money companies and non-losing money companies of Tehran Stock Exchange. According to research by increasing the accrual-based earnings management decreases conservatism. And increasing conservatism manipulate numbers three limitations so managers to manage earnings to do the actual work that they do raise real interest in the company's management.

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