

THE INVESTIGATION OF EFFECT OF COHESION EXPENDITURE ON CONDITIONAL CONSERVATISM IN ACCEPTED COMPANIES IN TEHRAN STOCK EXCHANGE

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***Abstract:** In this study has been evaluated the effect of Expenditure Cohesion on Conditional Conservatism. For investigating above mentioned research the information of these years (2007-2012) in Accepted Companies in Tehran Stock Exchange for hypotheses testing has been used. The research method of this study is applied research, from type of analytical- description. The research results show that there is significant and reverse impact between of Expenditure Cohesion on Conditional Conservatism*

***Keywords:** Information asymmetry, Expenditure Cohesion, Accounting conservatism, Conditional conservatism*

INTRODUCTION

Conservatism was an integral part of accounting in the rest of this century. In liquidation and bankruptcies accountants all losses before profit distribution were identified. This was to ensure that the first settlement paid to people who have priority in liquidation. Predict all future losses; capital will reduce the probability of a cash payment. Apart from debt agreements limit the distribution of roles and these roles work to do to improve their conservatism. A role that accounting numbers do signaling at a time when the company is in financial crisis. Extreme conservatism in identifying profit can create a lot of false signals, thus, conservatism versus other uses of accounting data should be adjusted. Conservatism also seems to be involved in management reward based on earnings. Optimum performance criteria for reward targets are the effects of managers' measures on firm's value, with the proviso that this measure is timely. This standard requires an estimate of future cash flows. Delayed effects of future cash flows shall be a balance between timeliness and reliability. Conservatism has a role in this balance since the purchase of an application expressed optimism conservative management. There are several hypotheses about the behavior of sticky costs and one of the prevailing theories of this phenomenon from the perspective of agency theory and personal motives managers to maintain production capacity during periods of declining revenues

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also have analyzed (Chen et al., 2008). Banker and Chen (2006) as a model for the rate of return on investment which costs the adherence behavior model presented. Thus they concluded that their model compared with other models to more accurately predict the return on investment.

RESEARCH PROBLEM

Managers have an incentive to avoid layoffs before the end of their tenure hide losses. Admission losses or projects with negative net present value lead shareholders to remove director. Such studies could lead to withdrawal director and delete projects that are currently net present value is negative. On the other hand projects with positive net present value are managers who have an incentive to provide information about the project.

Discussion of the contract for conservatism accounting is attributable to the majority of the using accounting within company includes management performance criteria such as company's subsidiaries units of the profit centers. These arguments can also be used to cost centers and budgets are developed to control expenditures to the extent that they do not control the staff responsible for the loss in value of the net assets is not assets. Why the extreme forms of conservatism that no profit until the optimum value for purposes not anticipate there is no contract yet? As noted, because it is a cost that comes from not being timely. Delayed recognition of the benefits that are addressed for the purposes of applying the bonus and dividend are costly obligation to reward timely handling capability than the extreme conservatism and investments in excess of the company's caused by MISAGH of cash dividends is limited decreases. Why the extreme forms of conservatism has no profit until the optimum value for contract purposes not anticipate there is no yet? As noted, because it is a cost that comes from not being timely. Delayed recognition of the benefits that are addressed for the purposes of applying the bonus and dividend are costly obligation to reward timely handling capability than the extreme conservatism and additional investments in the company created by the treaties limiting dividend is reduced. According to purpose, this Research considers to investigate the effect of Expenditures Cohesion on Conditional Conservatism in Accepted Firms in Tehran Stock Exchange.

Research Objective

Investigating quality of effecting the costs cohesion on conditional conservatism

Research Hypothesis

There is significant effect between costs cohesion and conditional conservatism

Research Background

Calleja et al (2006) adhesion operating costs using data from 4 countries, America, Britain, France and Germany were tested. The results showed, with the change of 1% in sales, operating expenses increased 97% and a decrease of 1% in sales of 1% in sales expenses decreased 61% and severity of adhesions in France and Germany costs are more than the severity of adhesions in America and England. Julia and Alberts (2008) in their paper the relationship between adhesion costs and conditional conservatism tested. The study for a period of 17 years, from 1988 until 2004 has been done. To measure the adhesion cost Anderson and his colleagues model and to measure conservatism Basu model used. The results showed an increase in costs cohesion is increasing conservatism.

Chan, Leang and Strong (2009), concluded that the conservatism of unconditional stability and predictability of current and future earnings and, consequently, it will lead better quality and lower cost of equity accounting. But conditional conservatism related with poor quality of accounting information and actions related to higher levels of conditional conservatism will lead to higher cost of capital. Kano Rdrygz (2010) in his article on conditional conservatism and unconditional effect of rubber audit examined. He did this study in Spain. This result show there is difference between firm's conditional and unconditional conservatism audit by major auditors and the firms that are not audit by the auditors as well as auditor's incentives to bear more of unconditioned conservatism more than conditional conservatism.

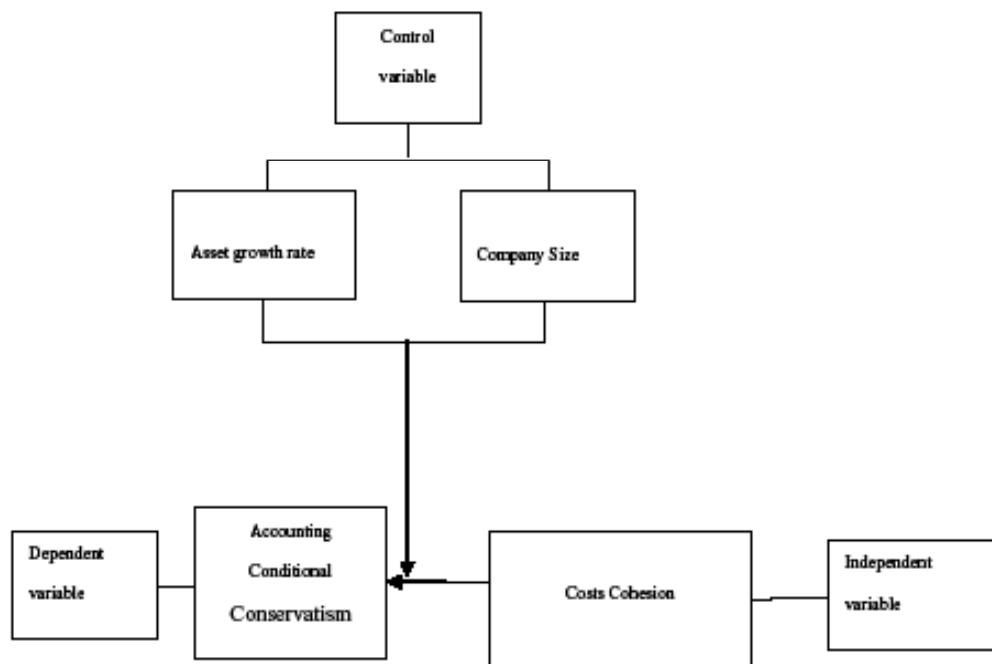
Yasvkata et al (2011) concluded that the sales forecasts issued by the director as representative of future sales will be used for management perspective and demonstrated that cost stickiness caused by deliberate management decisions arise and found that the size of the relative fluctuations in relation to the cost of fluctuations sales for when sales declined less than when the sale is increased. Dayrnk et al (2012) examined the driving factors of management and its impact on their costs and impact on the management of labor efficiency and cost effectiveness of payroll and its impact upon earnings measured and found that there are asymmetries in the level of activity and related costs and profitability.

Rezaei (2009) occurred in the relationship between conservatism and anticipated capital expenditures made with a significant negative relationship between both conservatism and the cost of capital is achieved. Hashemi et al. (2011) provided a conservative influence on the cost of common stock universe setting studied the findings show that, there is a significant inverse relationship between conservatism and the cost of equity capital provided and the degree of conditional conservatism and more the cost of equity capital is reduced. The results indicate that the conditional conservatism and the cost of capital common stock portfolio

are positive. The relationship between stocks with conservative portfolios on average equity portfolio companies with significant but many conservative stocks with low conservative portfolios, low is not significant.

Nahandi and colleagues (2012) as the impact of corporate governance on the conservatism in financial reporting that their findings indicate 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, there are less conservative in financial reporting.

Conceptual Model



Research Methodology and Data Collection Methods

In this research, “costs cohesion” as independent variable and “accounting conditional conservatism” 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 semi experimental according to (causal-comparative) Ex-Post Facto approach (through the past information). The Research data through the data

collection of size sample 'companies with referring to Financial Statements, explanatory notes, weekly and monthly reports of stock exchange by using the Rahavard Nowin and Tadbir Pardaz software are performed.

Statistical Population

Statistical population of this research is consisted all accepted firms in Tehran Stock Exchange in during the years of 2007-2012. Sampling method in this research is the systematic elimination (screening). For investigating the subject of this research it has been used by information of "year-company". The sample size of this study by using the sampling method of elimination was selected.

It means that, companies which are members of any industry group must have the following characteristics:

1. The end of their financial period should be the end at the last day of the year (29 March)
2. Before the year of 2007 in Tehran Stock Exchange were accepted.
3. They should not be including the holding and leasing companies. Because the nature of work in these firms are different from other member companies
4. During the period studied (2007-2012) does not have change the fiscal year.
5. During the period studied their information should be continuously available.
6. Statistical population in this research is all groups of industry of Tehran Stock Exchange that in during the period studied in Stock Exchange were active.

Hypothesis Testing

There is significant effect between costs cohesion and conditional conservatism

Table 1
Testing the effect of costs cohesion on conditional conservatism

Model	$I-EARN = \alpha_0 + \beta_0 * I-DUM_{it} + \beta_1 SGA_{it} + \beta_2 * I-CONTROLS_{it} + \beta_3 * (I-DUM_{it} * SGA_{it}) + \beta_4 * (I-DUM_{it} * I-CONTROLS_{it}) + \beta_5 * I-RET_{it} + \beta_6 * (I-RET_{it} * SGA_{it}) + \beta_7 * (I-RET_{it} * I-CONTROLS_{it}) + \beta_8 * (I-DUM_{it} * I-RET_{it}) + \beta_9 * (I-DUM_{it} * I-RET_{it} * SGA_{it}) + \beta_{10} * (I-DUM_{it} * I-RET_{it} * I-CONTROLS_{it}) + \epsilon_{it}$ $\text{Log} \left[\frac{SGA_{it}}{SGA_{it-1}} \right] = \beta_0 + \beta_1 \text{Log} \left[\frac{Sale_{it}}{Sale_{it}} \right] + \beta_2 * \text{Decrease} - DUM_{it} * \text{Log} \left[\frac{Sale_{it}}{Sale_{it}} \right] + \epsilon_{it}$
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<i>Test</i>	<i>Beta (non-standard)</i>	<i>Sign forecast</i>	<i>Symbol</i>
-1.671*	0.261	+/-	Constant
-1.898*	0.638	+/-	I_DUM
2.567**	0.190	+/-	SGA
2.411**	0.038	+/-	SIZE I-
-1.314	0.145	+/-	AINT I-
2.466**	0.369	+/-	I_DUM*SGA
1.272	0.055	+/-	I_DUM*I-SIZE
-0.375	-0.088	+/-	I_DUM*I-AINT
0.680	0.176	+	I_RET
-1.626	-0.145	+/-	I_RET*SGA
1.081	0.034	+/-	I_RET*I-SIZE
0.988	0.20	+/-	I_RET*I-AINT
-0.488	-0.001	+/-	I_ERT*NFIRM
3.108**	3.536	+	I_DUM*I_RET
4.337**	1.359	-	I_DUM*I_RET*SGA
2.047**	0.422	+	I_DUM*I_RET*I-SIZE
-2.11**	-2.364	-	I_DUM*I_RET*I-AINT
5.60***		0.53	Adjusted coefficient of determination
		2.14	Durbin-Watson statistic
* At level 10%	** At level 5%		*** At level 1%

In table 1, the effect of costs cohesion on accounting conditional conservatism has been tested.

The above image shows that the explanatory power of the above model is high and Durbin - Watson (2.14) not indicates the correlation is problem. F statistic also reflects the significance of the regression line at the level of 99.99%.

In the picture above it is clear that I_DUM.I_RET.SGA ratio is 1.0359 and significant (at the 99% confidence level). The bond costs have a significant negative impact on accounting conservatism is provided. (Low levels of SGA (costs Cohesion) represents less sticky).

This is contrary to our expectations. Because our forecast shows a positive impact of cohesion expenditure on conditional conservatism (we expected low amounts of SGA with high levels of conditional conservatism were related). According to these findings, Contrary research hypothesis is confirmed. The reason of this subject might be justified that if administrative and sale costs be high (expenses adhesion) (SGA), then the company's operating profit will be high and therefore this subject,

contributing to the intensification and increasing the conditional conservatism will be provided. In addition according to high operating profit, the tax rate expected to be more or corporation will be considered by political authorities. Therefore, for minimizing these threats, industries which have more operating profit then conservative accounting requirement applies more. This is inconsistent with the findings Dehalival, Hoanq, Karuna and Prior (2008) and Felsam (2009). Also there is significant and positive relationship between company size and accounting conditional conservatism (coefficient of I_DUM.I_RET.I-SIZE) (confidence level of 95% and coefficient 0.442). However, this hypothesis needs to evolve and it is still in initiative process. This means that if companies be large, then active persons of market for reducing the costs consider to the conditional conservatism accounting. Also it can see that there is significant and negative relationship between Asset growth ratio and accounting conditional conservatism (coefficient of I_DUM.I_RET.I-AINT) (at confidence level of 95% and coefficient -2.36). This means that in terms of asset growth in order to increase of costs, the conditional conservatism increase in financial reporting. The result is a justified reason for this might be that in our country a significant difference in the market value of the carrying values due to the unconditional conservatism, but because of high inflation. In addition, future growth opportunities of the difference between market values and book values are other reasons.

Results of Testing the Research Hypothesis

Costs cohesion has effect on conditional conservatism

In testing this hypothesis was identified that coefficient of I_DUM.I_RET.SGA is equal to 1.135 and it is significant (in confidence level 0.99%). it means that Costs cohesion has reverse and significant effect on accounting conditional conservatism. (Low amount of SGA (costs Cohesion) represents less sticky). This is opposite of our expectations. Because our forecast showed that there is positive impact between expenditure cohesion and conditional conservatism (we expected low amounts SGA with high levels of conditional conservatism were related). According to these findings, Contrary of research hypothesis is confirmed. The reason of this subject might be justified that if administrative and sale costs be high (expenses adhesion) (SGA), then the company's operating profit will be high and therefore this subject, contributing to the intensification and increasing the conditional conservatism will be provided. In addition according to high operating profit, the tax rate expected to be more or corporation will be considered by political authorities. Therefore, For minimizing these threats, industries which have more operating profit then conservative accounting requirement applies more.

CONCLUSIONS

In analyzing and concluding the research hypothesis test, it means that investigating the effect of the costs cohesion on conditional conservatism was determined that statistics of Durbin - Watson (2.14) shows that there is correlation problem. F statistic also reflects that there is Meaningful and linearity of regression at the level of 99.99%.

Also was determined that coefficient of I_DUM.I_RET.SGA is equal to 1.135 and it is significant (at the 99% confidence level). It means that, costs cohesion has a significant and inverse impact on accounting conditional conservatism. (Low levels of SGA (costs Cohesion) represents less sticky). This is contrary to our expectations. Because our forecast shows that there is a positive relationship between expenditure cohesion on conditional conservatism (we expected low amounts of SGA with high levels of conditional conservatism were related). According to these findings, Contrary of research hypothesis is confirmed. These findings are inconsistent with the findings of Dehalival, Hoanq, Karuna and Prior (2008) and Felsam (2009). Also there is significant and positive relationship between company size and accounting conditional conservatism (coefficient of I_DUM.I_RET.I-SIZE) (at confidence level of 95% and coefficient 0.442). It can show weak relationship (at confidence level of 90%) between company size and conditional conservatism. Kordlar and Shahriyari (2009), in investigating the relationship between conditional conservatism and political costs, they obtained the inverse relationship between these variables. The researchers argue corporations have more political cost. But Iterdiz (2011) argues that due to the high demand for representation in small businesses in these companies are also more conservative. However, this hypothesis needs to evolve and it is still in initiative process. This means that if companies be large, then active persons of market for reducing the costs consider to the conditional conservatism accounting. Also it can see that there is significant and negative relationship between Asset growth ratio and accounting conditional conservatism (coefficient of I_DUM.I_RET.I-AINT) (at confidence level of 95% and coefficient -2.36). This means that in terms of asset growth in order to increase of costs, the conditional conservatism increase in financial reporting.

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