The Relationship between the Relevance and Earnings Management in Companies Listed in Tehran Stock Exchange

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ABSTRACT
The main objective of this study was to investigate the relationship between relevance, earnings management in the company listed on the Tehran Stock Exchange. The present research, in terms of the objective, applied research, and considering that in the research method of library studies has also been used, can be found stating that the present research is based on the nature and methods of descriptive research, collection. In addition, the population in this study are listed on the Tehran Stock Exchange securities, using sampling as a statistical sample of 91 companies in the period between the years 1388 to 1392 (a total of 455 years – company) was selected and the data collected was analyzed using software Eviews. The results show that earnings management reduces the degree of relevance of accounting information as well as good corporate governance, reduce the amount of earnings management.

KEYWORDS
Relevance, earnings management, corporate governance, stock companies

INTRODUCTION
Research has shown that low volatility and stable profits, is an indication of its quality. In this way, investors confidence to invest in stocks of companies that process their interest is more stable. When companies are under growing pressure in economic disadvantage, the manager of the accounting department request that a bottom line financial statements (ie profit) to improve, and thereby to change its information content. Despite all its accounting flexibility, does not seem to be able to provide useful data for management is in such situation.

Law organizations in the United States on the basis of law, conducive to the company managers like the sarbinz aksli are required to ensure that the financial reports, enabling a company to improve the independence and supremacy of the auditor to the management and reduction of profit financial report improved quality (Hasase yeganeh and Yazdanian, 2008). In the meantime, earnings management is a form of earnings that is likely to reduce the reliability of profits. The profits have low reliability, are less informative. On the other hand, when opportunistic earnings management is controlled using monitoring systems, accounting earnings are more reliable and more informative. Corporate governance reduces the capacity of managers to manage earnings and ability to improve the reliability of accounting earnings and is thus useful notification feature improves accounting earnings (Aghai and et al, 1388).

The primary goal of all accounting standards meet the needs of the capital market. As mentioned in the theoretical concepts of financial reporting, the financial statements are presented in summarized and classified information about the financial position, financial performance and business unit financial flexibility for a wide range of users of financial statements in be beneficial economic decisions (Technical Committee on Corporate audit, 1384).

BACKGROUND RESEARCH
Baghumian et al (1392) in a study to examine the relevance of accounting earnings paid with the return of normal and abnormal. The results of the analysis of the data indicates that earnings have relevance to users. In other words, both normal return yearly and annual abnormal returns are significant relationship with accounting profit. In this case, the accounting earnings normal efficiency has a direct and significant relationship with abnormal return, but has significant inverse relationship is. The accounting earnings is the impact on stock prices.

Bahraini et al (1392) in an article entitled The effect of corporate governance mechanisms and audit quality on the relationship between earnings management and stock prices of petrochemical companies and other firms listed in the Tehran Stock Exchange did. For this purpose, the data of 74 companies listed on the Tehran Stock Exchange during the years 1383 to 1389 were used. Corporate governance
mechanisms considered include the concentration of ownership, the percentage of non-executive board members and shareholders, institutional ownership percentage. To measure earnings management of discretionary accruals that Kothari model (2005) was used. The results showed that corporate governance mechanisms have been significant relationships with the stock price and earnings management. Concentration of ownership and the percentage of non-executive board members were negatively related and institutional shareholders ownership percentage are negatively correlated with stock prices. The effect of ownership concentration and the percentage of non-executive members with negative earnings management and ownership of institutional shareholders with positive earnings management. The results also suggest a positive relationship between audit quality and earnings management firm size has a positive impact on the relationship between the two.

Izadinia et al (1392) in your study to examine the related accounting information in enterprises being accepted on the Tehran stock exchange. To achieve this goal a sample consisting of 155 companies from among the companies accepted in the Tehran stock exchange during 1380 to 1388. The results obtained from the model yields a positive relationship between the existence of profit share information with a variety of stock return and accounting information related to confirm. The results of a positive relationship between the price of the model, profit per share for the current period, and the value of the stock market value of the shares of the Office. Also, being the price of the model, a lot more than the efficiency of models.

Shan et al (2015) in a study to examine the relevance, earnings management and corporate governance in China. In this study they examined the issue of whether earnings management is to reduce the relevance of good corporate governance, earnings management and whether or not the building is limited? Using a sample of 1012 firm-year in the Shenzhen Stock Exchange, came to the conclusion that the negative impact of earnings management for companies that are doing better than companies that do not profit management. What's more, companies with good corporate governance is likely to restrict earnings management.

Zhou Hong (2015) in an article examines earnings management, corporate governance and adherence cost in China. They said they no instances of earnings management compared to the examples that have been profit management, adherence is a significant cost. In addition, they examined the interactive effects of earnings management, corporate governance, adherence to the costs they show that companies with good corporate governance can further reduce the cost of adhesion. Although this effect is not so strong.

Cheney & Altman (2014) in a study to examine the impact of adoption of IFRS (International Financial Reporting Standards) the relevance of earnings and book value in emerging markets in Africa and Asia began. The results of this study suggest that the earnings per share in the period after the reception is readily visible. Further analysis showed that increase in value positively and significantly influenced by the legal system, high levels of external openness of the economy, supporting strong investment and full protection of minority shareholders and the capital market is complex.

HYPOTHESIS

- Earnings management reduces the relevance of accounting information.

RESEARCH METHODOLOGY

The aim of this study was to investigate the relationship between relevance, earnings management and corporate governance in companies listed on the Tehran Stock Exchange. So the aim of the present study is an applied research and on data collection (study design) is a descriptive study (non-test) is. In addition, the research method is a survey research.

The statistical community and population sampling survey research:

contains all public companies accepted on the Tehran stock exchange during the period of 1388-1392. To determine the statistical sample, sample size estimation for the special relationship and sampling is not used but the method of systematic use of knock-out.

VARIABLE REGRESSION MODELS AND MEASUREMENT METHODS RESEARCH

Regression model study are as follows:
The relevant equation being

\[ PRICE_{it}^{APRIL} = \beta_0 + \beta_1 BVP_{it} + \beta_2 EPS_{it} + \beta_3 ABNRPT_{it} + \epsilon_{it} \]

The dependent variable:

\[ PRICE_{it}^{APRIL} \]: I company's stock price in four months after the end of the fiscal year in period t

The independent variable:

\[ RLPT_{it} = \alpha + \beta_1 LEVERAGE_{it} + \beta_2 FIRMSIZE_{it} + \beta_3 MKVE + \epsilon_{it} \]

RLPT: Transactions with related parties. Is to sell goods and services to sales related parties.
LEVERAGE: Leverage as measured by total debt to total assets.
MKVE: Market value to book value.
ABNRPT:
\[ \epsilon \]: An indicator for trading related sectors (ABRUPT) as the dependent variable in the equation is the equation for the effect of earnings management and earnings management, are used.

Independent variables:

Corporate governance: to measure corporate governance in this study, we use the following model:
$$CGQ_{i,t} = \sum_{j=1}^{6} Corporate\ Governance\ Mechanism_{j}$$

Focus state ownership: Part of the shares held by the government. If the government shares less than the median sample at the end of the fiscal year and otherwise maintain a zero.

Foreign ownership concentration: part of the stock that is held by investors outside of the members of the Board of Directors. If the higher stakes of foreign investors from the Middle sample at the end of the fiscal year and otherwise maintain a zero.

The size of the board: The number of directors on the board. If the size of the board at the end of the fiscal year is greater than the middle sample, and otherwise a zero.

Independent directors: the number of independent directors on the board. If the independent directors of the company at the end of the fiscal year is greater than the middle sample, and otherwise a zero.

Independent audit committees: audit committee independence. If the independent Audit Committee of the Company at the end of the fiscal year have one and otherwise zero.

Corporate Audit: If at the end of the fiscal year by the audit, the audit is to be one and zero otherwise.

If the value of the sum obtained for the variable corporate governance larger than the sample size is moderate, good corporate governance.

BVPS: book value of shareholders’ equity divided by number of shares of company i at the end of the financial year t.

EPS: earnings per share for firm i at the end of the financial year t.

Control variables:

ROA: return on assets.

FIRM SIZE: Firm size is defined as the natural logarithm of total assets.

DESCRIPTIVE STATISTICS OF VARIABLES

In this section, the central parameters such as mean and standard deviation measures the dispersion, skewness and kurtosis for each of the variables offered. In this connection mean, the main central index, and average data shows, so that if the data on an axis aligned on a regular basis, the average value of the distribution is exactly the point of balance or center of gravity. Standard deviation of dispersion parameters and the scattering data show. Skewness also set the parameters deviations from symmetry and asymmetry index data. If you have a community of symmetrical distribution, skewness coefficient equal to zero, if the community is skewed to the left, the coefficient of skewness is negative and if you have the right skew, skewness coefficient will be positive. Elongation is a measure of dispersion towards the normal distribution (Momeni and Ghaiyoomi, 1390).

Brief descriptive statistics of the variables are presented in Table 1.

Based on the criteria presented in Table 1 can be seen that the average price of Company shares on average during the investigation period was equal to £ 679/5883. The ratio of book value on average equity was equal to 963/2020. Earnings per share companies an average of £ 679/974 calculated the average earnings management index is equal to zero. 33/50% of companies have also been good corporate governance and the Company's average return on assets equal to 1343/0 is obtained. Company size also has been an average value of 4221/13.

Stationary variables (unit root test):

In order to study the stationary variables Dickey-Fuller test generalized (Fischer type) is used. The test of the unit root hypothesis tested in the series values. If the null hypothesis that there is a unit root test series is rejected values can be accepted in the series studied, Mana and otherwise must differencing techniques such as regression on time or Box and Cox transformation be used. The results of these tests are presented in Table 2.

### Tab. 2. The results of stationary variables

<table>
<thead>
<tr>
<th>Significance level</th>
<th>Dickey-Fuller test</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0000</td>
<td>247.862</td>
<td>stock price</td>
</tr>
<tr>
<td>0.0000</td>
<td>353.449</td>
<td>The book value of equity</td>
</tr>
<tr>
<td>0.0000</td>
<td>329.123</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>0.0000</td>
<td>400.098</td>
<td>Earnings management</td>
</tr>
<tr>
<td>0.0019</td>
<td>76.1659</td>
<td>Good corporate governance</td>
</tr>
<tr>
<td>0.0000</td>
<td>295.256</td>
<td>Return on assets</td>
</tr>
</tbody>
</table>

Tab. 1. Descriptive statistics variables
As Table 2 shows, significant levels of Type I error 05/0 all the tests are smaller and therefore reject the null hypothesis of the unit root test statistics that can be accepted and the series studied at this level of error Mana and thus, the behavior of variable values over time will not be significant changes in the process.

The results hypothesis testing:

In this section, the research model to study the impact of debt on the company's investment structure has been fitted. This section includes diagnostic testing model (Chow and, if necessary, Hausman), estimating regression models to investigate the basic assumptions of regression.

Diagnostic tests Model:

Prior to estimate the regression model research diagnostic tests to determine significant effects model was carried out. Table 3 shows the results of these tests.

Tab. 3. Chow and Hausman test results in the detection of cross-effects model stock price

<table>
<thead>
<tr>
<th>prob</th>
<th>df</th>
<th>statistic</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0000</td>
<td>20,430</td>
<td>8.166055</td>
<td>Chow Test</td>
</tr>
<tr>
<td>0.0000</td>
<td>4</td>
<td>33.110330</td>
<td>Hausman Test</td>
</tr>
</tbody>
</table>

Due to the significant level Chow test to determine significant cross-effects regression model study, which is smaller than 05/0 obtained Type I error, test the null hypothesis of no significant cross-effects and can be accepted in the research model rejected the model this regression should be estimated using panel data. Hausman test to determine the significance level fixed or random effects model smaller than the cross-sectional 05/0 Type I error, which indicates rejection of the null hypothesis in this test, cross-sectional research model is based on random effects. The investigation into the way the panel data with fixed effects regression model is estimated.

The results of logistic regression model research:

Table 4 summarizes the findings of this model show.

Tab. 4. The results of research regression model with the dependent variable stock price

<table>
<thead>
<tr>
<th>VIF</th>
<th>prob.</th>
<th>t-stat</th>
<th>std.</th>
<th>Beta</th>
<th>independent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.098671</td>
<td>0.0000</td>
<td>6.2962</td>
<td>0.2829</td>
<td>1.7812</td>
<td>BVPS</td>
</tr>
<tr>
<td>1.080821</td>
<td>0.0000</td>
<td>9.3566</td>
<td>0.4010</td>
<td>3.7524</td>
<td>EPS</td>
</tr>
<tr>
<td>1.172471</td>
<td>0.0020</td>
<td>3.1163</td>
<td>10.9448</td>
<td>34.1070</td>
<td>ABNRPT</td>
</tr>
<tr>
<td>1.105894</td>
<td>0.0000</td>
<td>-12.578</td>
<td>0.0054</td>
<td>-0.1944</td>
<td>EPS*ABNRPT</td>
</tr>
<tr>
<td></td>
<td>0.0718</td>
<td>-1.8057</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results of the independent variables:

Due to the significant level obtained for earnings per share effect can be seen that earnings per share has been positive and meaningful impact on the company's stock price. The earnings per share impact factor interaction with the criteria of earnings management in companies shows that their interaction effect has been a significant effect on stock prices. It can be accepted that the profits of the relevant management accounting information and therefore reduces the first hypothesis has been approved at the level of error is 05/0.

The results tests Nico fitted model:

 Nico based on the F-statistic model can be seen that the significance level of less than Type I error analysis of variance showed a significant regression models estimated 05/0 is obtained. The coefficient of determination modified model also shows that 32/85% of variation in stock prices is explained by the independent variables of the model.

The initial assumptions of regression test:

The results confirmed the independence of the components of the Durbin-Watson statistic to statistic error of the estimate is the amount 017/2. Since this amount is close to the experimental value 2 can be assumed to accept the independence of error components. 

Jarque-Bera test results to confirm normal distribution of experimental error components with a significant level of 2373/0 show the components of the model error is normal.

Pagan also test method was performed to confirm the consistency of the variance component model error. The test achieved a significant level of 1323/0 which confirms the consistency of the model error variance components.

VIF index values which are calculated to measure the lack of co-linearity among the independent variables, which are smaller than the critical value of 10 indicates a lack of co-linearity obtained significantly between independent variables and the independent variables it can be accepted that the accuracy of impact factors in the model, the independent variables are not affected by internal relations.

Tab. 5. The results of the initial assumptions of the regression model stock price

<table>
<thead>
<tr>
<th>prob.</th>
<th>df</th>
<th>statistic</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.2373</td>
<td>-</td>
<td>2.017611</td>
<td>Durbin-Watson</td>
</tr>
<tr>
<td>0.1323</td>
<td>(3,436)</td>
<td>4.612874</td>
<td>Bresasch Pagan</td>
</tr>
</tbody>
</table>

It can be accepted that the initial assumptions in determining the effects attributable regression model is
established and results. Chart 1 shows the empirical distribution of the error components and distribution model.

**CONCLUSION**

The main objective of this study was to investigate the relationship between relevance and corporate governance in companies listed on the Tehran Stock Exchange. In addition, the population in this study are listed in the Tehran Stock Exchange securities as a statistical sample of 91 companies in the period between the years 1388 to 1392 (a total of 455 years-company) was selected data to were collected and analyzed. The results show last season, heads the research hypothesis is accepted. Summary results of the study in this study (Table 6) is presented:

<table>
<thead>
<tr>
<th>Conclusion</th>
<th>Description hypothesis</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmation</td>
<td>Earnings management reduces the relevance of accounting information.</td>
<td></td>
</tr>
</tbody>
</table>

Due to the significant level obtained for the effect of earnings per share (Table 4) show that earnings per share has been positive and meaningful impact on the company's stock price. Also, the impact factor interactive effects of earnings per share in company earnings management criteria shows that the effect of their interaction has a significant effect on stock prices has been. It can be accepted that the profits of the relevant management accounting information and therefore reduces the first hypothesis has been approved at the level of 5 percent.

It seems that the results are as expected for this hypothesis, the loss of earnings if management is profit. Because when the manager attempted to earnings management, this figure can not properly reflect the performance of the company and therefore its reliability is reduced. So it can be said that earnings management is to reduce the relevance of accounting earnings.

In this regard and in accordance with the results, khodadadi and Tucker (1389) reported negative earnings management based on profit. In addition, pourzamani et al (1389) also found that the relevance of earnings management is negatively affected profits. Shan at al (2015) concluded that the negative impact of earnings management for companies that are doing better than companies that do not profit management.

**Offers:**

The results of this research available to investors, shareholders, analysts and all individuals and organizations that are somehow involved with investor activity on the stock exchange will be useful. Therefore, the following is presented:

- The Auditors recommended that companies that profit by manipulation of the possibility of more management, increase the sample size to allow legal proceedings against against those who trust their reports, to protect themselves.

- Finally, with regard to the theoretical foundations and principles of corporate governance Considering that each country should be based on the underlying framework of these countries is, therefore, a native of the concepts of corporate governance according to the country issues, cultural and economic very critical is that the role of professional bodies including the stock exchange and the Corporate audit is very important. Any model of similar foreign laws and regulations in this regard, regardless of management structure, cultural, economic and other issues affecting the corporate governance tools will not only help to efficiently manage tasks, but may now be faced with many problems.

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