Conservative Impact on Distributable Profits of Companies Listed on the Capital Market of Iran

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Abstract

The present study examines the impact of conservatism on distributable profits. In this study, a financial data of 55 companies listed in Tehran Stock Exchange for the years 1385 to 1390 collection research hypotheses using correlation analysis and regression modeling have been tested. The first hypothesis of this study is empirically test the hypothesis that the cause of conservatism. This study sought to examine the existing empirical evidence on the extent of compliance with existing facts and opinions stated reasons for conservatism and criticisms of the review. The first question in this study is whether increased conservatism, lower profits are distributed among shareholders and the second question is whether Accounting conservatism is the interest of stability reduces?

The first hypothesis regarding the theoretical explanations have been proposed from the perspective of agency theory predicts that increasing conservatism, distributable profits decrease. Research suggests that there is compelling evidence to support this hypothesis. The second research hypothesis predicted that sustained simultaneous profit decreases with increasing conservatism. With an annual output of the company's stock for a conservative measure, the second hypothesis is accepted at the appropriate level of significance. As a result there is no definitive research on the acceptance or Rejection second hypothesis.

Keywords: *conservatism, profit distributions, sustainability gains*

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1. Introduction

Conservatism, a very important place in the minds of the most important principles of bookkeeping and accounting has been called by some authors. Some investigators accounting conservatism means more effective Bad News (compared to reported earnings) on securities prices, profit units have been interpreted (Shabahang, 2003).

Conservatism is a term usually used meant that accountants need to assets and income, debt, and spending the least amount possible for the highest amount possible to report. It also means that to the extent possible, costs should be identified later. Hence, it is possible to net asset value less than the current trading price of the item (not over it) will determine the likely benefit calculation (the values) to reach the minimum. It is assumed that the financial reporting is much better than the pessimistic optimism (Hasas yeganeh*et al.*, 2008).

In Article 18, Chapter II of the theoretical concepts of financial reporting, the qualitative characteristics of conservatism as a sub for the possibility of such reliance is defined as " the use of point of care in the exercise of judgment is required to estimate the uncertainty in position so that the income or assets of and expenses or liabilities are not actually smaller than actually provided.

One example cited uncertainties include: the ability to collect receivables, the probable useful life of tangible fixed assets and The number and extent of potential claims relating to the guarantee of goods sold, with precautions such cases, the financial statements and accompanying disclosures of the nature and extent of their identification " (Mashayekhi et al., 2009).

2. Theoretical Foundations

2.1 Conservative

More recent studies suggest that accounting earnings are conservative, in other words, profits tend to be bad news (negative stock returns) than good news (positive stock returns) is based on a more timely basis to reflect (Basu 1997). The accounting literature has examined two important features of conservatism; the favor of the offer is less than the book value of the stock relative to its market value, which is as Flsam and Alsn 1995. Second, the tendency to accelerate the recognition of losses and deferred gains recognized in 1997 as it is by Basu (Price, 2005). Given the role of financial reporting in providing reliable information for users of financial statements, on the one

hand and conservative role as one of the qualitative characteristics of financial information and evidence on the development of accounting conservatism on the other (Ghaeme et al., 2009). Concepts Statement No (2) America Financial Standards Board (1980) conservative is defined as:"Prudent response to uncertainty and ambiguity in order to ensure that the risks associated with it are considered sufficient". Standards Board of Finance America, conservative part of the definition and classification of quality attributes is not yet in paragraph (18) of Chapter II of theoretical concepts Iranian financial reporting conservatism as a qualitative characteristic of reliability, is defined as: "Caution is used for estimating the degree of care in the exercise of judgment is required in terms so vague that the income or assets of more than the debts or costs Do not provide " (Technical Committee on Corporate Audit, 2002).

Gyvly and Hine is the selection of a conservative accounting approach under uncertain conditions that ultimately lead to providing a minimal income and minimal assets and equity have a positive effect (Givoly andhayn, 2000). Volek et al conservatives define themselves "conservative, i.e. identification and evaluation of slower earnings less assets ". Despite the general definition of conservative, conservative accounting literature review has two important features. First the bias in the presentation of the book value of the shares less than its market value by 1995, as is Alsn et al . Second, the desire to speed up the recognition of losses and deferred gains recognized in 1997 by Basu has been (Price, 2005).

Further, the study will form the second part of the third sector research background and research hypotheses are explained and presented. The fourth section covers the research methodology and test hypotheses, and Section V contains the findings and conclusions are made in the last section.

2.2 Distribution of Dividends

Dividends, distributions of cash or other assets of a corporation's shareholders. The distribution of dividends to shareholders return on investment.

Distribution of dividends proposed by the Board and after approval by the general meeting of shareholders takes place. (Article 90 of the Commercial Law Act 1347) Payment of dividend decreases assets and equity will also decrease the opinion that the account does not reduce stock companies usually pay dividends, the cash balance decreased , and is recorded in retained earnings (Shabahang, 1995).

The Financial Accounting Standards Board Statement Number One (SFAC.1) assumed that accounting earnings measure for evaluating the performance of future profit and cash flow forecasts can be used for other experts Accounting assume that the profit of the information models considered in the decision of investors and creditors. But the validity of these assumptions through observational studies has been confirmed. Other researchers have stated that the users of accounting reports earnings should be Accounting profit only if understood and used the method of measurement and operational rules, it should be clear to (Shabahang, 2003).

All business units may be due to a desire not to harm reduction agency duly recognized. Lafvnd and Rvychvdhry (2008) showed that firms with managerial ownership less is more conservative earnings report that this demands corresponded to shareholders to reduce agency. Many studies (Peak et al 2009, Ball and Shyvakvmar, 2005; Lafvnd Dargnydv et al, 2007) shows that the concentration of risk management to resolve information asymmetry between managers and shareholders through private channels rather than public disclosure increases. This reduces the demand for conservatism in favor of monitoring purposes.

It considers the effect of ownership structure on earnings conservatism deals with the issue of Timely identification of firms we use the loss to reduce information asymmetry and deviation to the two controlling shareholders of the controlling shareholder right to vote and Statement of Cash Flows depends on So that the ownership of the controlling shareholder more incentive for management to provide information to shareholders increased ; The vast majority of the entity's capital is provided by its shareholders . The information asymmetry between managers and shareholders instead of conservatism through private channels is removed.

As a result, the monitoring role of conservatism in earnings, a negative correlation between the rate controlling shareholder equity and earnings conservatism predicts. The deviation between voting rights and cash flow rights of controlling shareholders should be noted that increasing the deviation between controlling shareholders, increasing concerns about the loss of his ability. In order to deal with this problem, the controlling shareholder of the entity to finance the project relies more on internal resources. The regulatory role of conservatism in earnings, negative relationship between the deviation of shareholder voting rights and cash flow rights of controlling conservatives predicts profit (Sanchez et al, 2009).

Watts has stated that the demand for conservative accounting stemming from the contract (Watts, 2003). Two important features of accounting conservatism, the asymmetry in the accounting recognition of gains versus losses as well as reduce the likelihood of net assets (Roy Chaudhry and

Watts, 2007). The two characteristic markers identified in the profits and losses of assets and liabilities may require the use of higher levels of dependence (Watts, 2003).

Earning one of the major items of the financial statements that will attract the attention of users of financial statements. Investors, creditors , managers, employees , analysts, governments and other users of financial statements of earnings as a basis for investment decisions , lending policies, interest payments, corporate assessments , taxes and other decisions relating to the company they use (Mashayekhi et al, 2009).

Information provided by the company and therefore profits, based on past events, but investors need information about the company's future. One of the approaches in this regard, providing historical and current data by business unit is the only way that enables investors to make predictions about the future. Another approach is to manage the resources in hand to make reliable predictions deal with the public release of these projections, to increase the efficiency of financial markets (Mashayekhi et al, 2009)

According to some authors, the conservative influence of dividend increases being more efficient, implicit contracts concluded between stakeholders in the business, especially between shareholders and creditors , and will cut taxes and improve the system of corporate governance and greater transparency of financial reports of other possible causes listed for conservatives. This study is intended as the first of the above criticisms of the conservative (decreasing stability with increasing earnings conservatism) to examine and test (Lotfi and Hajipour, 2010).

3. Hypothesis

According to agency theory, a business unit has signed a series of agreements between the interested parties. The contract scope and the scope of the entity set. Because stakeholders come together and jointly pursue an economic activity that is found to perform well in economic activity jointly reduce transaction costs. They are putting together financial resources, management skills and relied on synergy of these factors together; make a symphony together and concentrated economic activity follow (Deegan, 2006).

Watts (2002) suggest conservatism is a tool to deal with ethical issues and risks arising from each stakeholder participation, information, efficiency, utility and obligations are different from others. Considering his agency theory, expresses conservatism is a tool that can efficiently organize the business unit and its surrounding contracts can cause (Watts, 2003).

Conservative accounting practices from the perspective of creditors and the creditors of a business unit means a fit and proper distribution of profits and net assets among the beneficiaries (Watts, 2003).

Conservatism means recognizing faster losses against profits reduce profits and net assets will result in the account. The dividend distribution will be less rewarding and more natural resources and assets will remain in business. Thus, creditors and creditors of the entity's return on the resources they have to be sure.

In this sense, accounting conservatism prevents transfer of wealth from creditors to shareholders or other stakeholders. Research on the effectiveness of conservative and efficient creditors and shareholders' focused on building a relationship. Be conservative when agency costs (due to excessive dividend distribution and transfer of wealth from creditors to shareholders) reduce creditors and creditors of means to support the distribution of profits to shareholders than would result.

It describes the first research hypothesis is stated as follows:

3.1 First Hypothesis: The Increasing Conservatism Lower Dividend Is Distributed

Conservatism is contrary to the agreement and could reduce earnings stability. Dychav (1994) argues that the best kind of income to cope with the costs of current income consistent with current costs. But conservatives quickly identify losses due to depreciation of assets, causes of action; costs in future periods to current period income, are coping.

This behavior is clearly a deviation from the original agreement, the earnings fluctuate over time and form of the disorder and reduce its stability (Paek et al.,2007). Basu (1997) states that it rejects the criticism timeliness and continuity (stability) of two contrasting aspects of financial reporting that there is a kind of harmony between them.

For example, if all the facts and all aspects of an event in the current period (time) should be reported, and the other valuable information for future reporting periods may not remain. This means that the timeliness of reporting and regular reporting, there is an inverse relationship. As conservatives, we report the early damage and loss caused as a benefit, it can be predicted that the report would not be continuing decline in profit (Almazan et al., 2005).

According to the contents of the second hypothesis is stated as follows:

Second hypothesis: the increasing conservatism in financial reporting, sustainability of profit will decrease.

4.   Methodology

Study is descriptive research that is used as a target. In this study, to examine the relationship between variables and significant model for explaining the dependent variable, regression analysis was used. For this purpose, the model of Basu (1997) is used to measure conservative corporate profits.

4.1 Basu Model

According to Basu (1997) Conservative to less stable earnings in periods of bad news than good news leads courses.

He defines the procedures for applying conservative causes loss recognized in the current period to be done quickly , While recognizing profits to be made gradually over several periods . Thus, conservative accounting earnings can impact more quickly bad news, but this effect cannot be sustained. In contrast, the good news is that more time needs to be reflected in profits, but this is reflected in future periods, are more stable. Basu enjoying following model asymmetry reflected in the interest of good news and bad news, resulting in varying degrees of stability (Basu, 1997).

(1) $NI = \alpha + \beta_1 \, DR + \beta_2 \, RET + \beta_3 \, RET * DR + \varepsilon$

In this model:

NI: Net Income before Extraordinary Items divided by market value of equity

RET: annual output of the company's shares

DR: a dummy variable for firms that RET <0 and equal to one otherwise zero is considered.

In this model, yielding positive and negative returns represent good news, bad news agent.

If stock returns are positive, $NI = \alpha + \beta 2\ RET + \varepsilon$ is achieved, where $\beta 2$ showed a sensitivity reaction to earnings news good relationship. If stock returns are negative, $NI = \alpha + \beta 1 + (\beta 2 + \beta 3)$ $RET + \varepsilon$ is achieved where $\beta 2 + \beta 3$, allergic reactions related to earnings ratio of bad news shows. He believes that earnings response to bad news than good news is timely than responses to the earnings. In other words, $\beta 2 < \beta 2 + \beta 3$ and hence $\beta 3 > 0$ is. He called profit that reflects the asymmetry of the coefficient $\beta 3$ conservatives.

4.2 Course of the Test, the Sample Survey

5 -year study period, a period of years 1385 to 1390 are based on financial statements. Listed Companies in Tehran Stock Exchange survey form. Among these companies, the companies due to the special nature of financial intermediation activities are eliminated. Companies will be considered in this study:

1 - From 1385 to 1390 the stock today.

2 - March to the end of their fiscal year ends.

3 - Between the years 1385 to 1390 fiscal years has not changed.

4 - Company between the years 1385 to 1390 is not operational interruptions.

5 - The company must have at least 70 trading days (in order to be reliable flow of corporate shares, and thus the share price and returns it).

6 - The information needed is available now.
Based on the above conditions have been 55 now, and have been selected as research subjects.

5.   Results

The observations stock images with positive returns (good news) and negative stock returns (bad news) is limited to 7 % of the observations have bad news and good news is that 93 % of the observations were performed with the statistical software spss.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
bad news(negative yield)	0.552	0.305	0.227	0.781919762	1.787
good news(positive yield)	0.602	0.362	0.360	0.8845257	1.902

Table 1: Correlation between Variables

Model		Sum of Squares	df	Mean Square	F	Sig.
bad news (negative yield)	Regression	4.820	2	2.410	3.942	0.038
	Residual	11.005	18	0.611		
	Total	15.825	20			
good news (positive yield)	Regression	109.857	1	109.857	140.413	0.000
	Residual	193.249	247	0.782		
	Total	303.106	248			

Table2: Significance Tests , Regression And Correlation Coefficient Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
bad news(negative stock)	(Constant)	-0.695	0.35		-2.961	0.008
	Ret	1672.158-	10270.224	-0.133	-0.163	0.872
	Ret*dr	8564.388	10277.034	0.680	0.833	0.416
good news(positivestock)	(Constant)	0.623	0.059		15.629	0.000
	Ret	7698.322	649.670	0.602	11.850	0.000

Table3: Significant Coefficients of the Regression Coefficients

6. Results Of Hypothesis Testing

Multiple correlation coefficient R in table 1 indicate that the company's relationship with the independent variables with the dependent variable in the good and bad news , respectively, 0.602 and 0.552 , and the other variables in the model (respectively good and bad news) about 36 and 30 % of the variability explain (0.360 = adj R2 and 0.22 = adj R2). According to Fisher statistic calculated (for good and bad news) (140.413 = F and 3.942 = F), we can assume a linear

relationship between the dependent variable and the independent variables were significant at the appropriate level. Camera test - both Watson's(1.902 and 1.787) is greater than 1.5 and less than 2.5, assuming no correlation between the normal distribution of errors cannot be ruled out. The result of this figure shows that the fitted model having significant assumptions necessary for regression is appropriate.

7. Conclusion

From the perspective of agency theory, conservatism reduces the distributable profits or contracts on a commercial unit will be more efficient. According to the theoretical study discussed in the accounting literature, to test this prediction is discussed. Our findings suggest that the predictions made in the accounting literature, in the case of listed companies in Tehran Stock Exchange is true. Given these findings can be applied to the conservatism in setting accounting and financial reporting could have benefited from the shareholders of protecting the creditors and the creditors.

Detected faster and the more events can lead to increased profits in the current period shall be recognized as part of the costs in future periods. This in turn can reduce the stability of the profit and costs of incorrect decisions impose on investors. The study of accounting conservatism, initially using Net Income before Extraordinary Items divided by market value of equity, and then using annual returns company's shares, the stage was examined.

Statistical analysis of the data suggests that there is some searches first compelling evidence in support of the hypothesis. The second research hypothesis predicted that sustained simultaneous profit decreases with increasing conservatism. With an annual output of the company's stock for a conservative measure, the second hypothesis is accepted at the appropriate level of significance.

Yet possible to comment explicitly on the acceptance or rejection of the second hypothesis requires further investigation no definite opinion, developed a more stable and more precise criteria for assessing the stability of the profit impact of conservatism.

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