



The Relationship between conservatism and economic criteria, assessing financial performance of listed companies In Tehran Stock Exchange (2010-2014)

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ABSTRACT

Evaluating the company's performance in economic decision-making is important. There are different criteria and methods for evaluating the performance of companies. The main objective of this study was to investigate the relationship between conservatism and economic and financial measures to evaluate the performance of the company's stock. For this purpose, a sample of 87 companies listed in the Tehran Stock Exchange during the period 2010 to 2014 has been 5 years old. Conservatism is an indicator of the importance of financial reporting that over a long period accounting theory and discussed the role. To measure accounting conservatism, model and Shyvakvmar Wings (2005) and to test the hypothesis of regression models were used at a significance level of 95%. The study findings demonstrate that direct and significant correlation between conservatism and economic and financial criteria there.

Keyword:

conservatism, Return on Assets ratio Equity, Market Value Added

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Introduction:

The information essential role in the functioning of the market. The purpose of financial reporting as well as provide useful information to users reliable information. One of the components of what conservative principle.

Verifiability doing different conservative to identify revenues and costs, which led to the under-representation of income and assets (and Hannes Giuli, 2006; Volk, 2007; Aschrydr et al., 2008; Basu, 1997; distrust and others, 2010). Also Hendrickson (1992) argues that conservatism caused some confusion and is misleading accounting reports and is in conflict with the principle of full disclosure. Criticisms and defenses different from conservatism has been done, so Pourheydari and Ghaffar Le (2011) argue that conservatism creates distrust, secrecy and denial accounting principles and generally more kind of mental attitude rather than a mechanism for accountability ambiguity. Defenders, including Speaker (2008) argues that conservatism panacea for optimism too Tjaryst managers and owners. Wings and Sdka (2005) argue that conservatism is divided into two types: unconditional conservatism and conservative contingent work. The first concept is independent of the events and actions that the book value of the assets of their market value in the future, and the second conceptually related to the occurrence of certain events and actions that the events unpleasant asset values decline, but in the case of events appealing value assets will not increase.

Different criteria for measuring conservatism that three of the most widely used in research, by criteria of efficiency and profits (Mehran et al., 2010), criteria based on market values (Fltham and Olson, 2009; Banimahd and Horticulture, 2009; Mehran et al., 2012), and the accrual-based standards (Banimahd and horticulture, 2008; Mehran et al., 2010 and Vshyva wing Kumar, 2005) is. The reasons for adopting different views of conservatism and its benefits for the company. Russian and Watts (2010) believe the next contract and the nature of conservatism on the development of accounting and financial reporting is effective. Aytrdyz (2011) states that due to the high level of problem representation in small companies more conservative large companies, and the findings of the Study Committee Erasmus (2010) indicates that the conflict between creditors and shareholders, especially in the field of dividend factor to adopt a conservative approach. After the legal, conservatism also makes participation in the reporting of any cost of litigation had suffered (Watts, 2009). Through less conservative estimate of the net assets, legal costs expected to reduce the company (Russian and Watts, 2011). The political dimension, conservative political costs imposed on standard setters and regulators to reduce so that the political process losses resulting from the valuation of the assets and profits, a considerable level of assessment is less than the assets and profits (Anwar et al., 1383; Watts, 2009). Zimmerman (1983) and KORDLAR monarchy (1388) argue that large companies are trying to reduce the political costs, provide financial reports are conservative. After tax, profit and loss asymmetric knowledge managers profitable companies to reduce the present value of tax payments enables (Vzymrnn Watts, 1979; Watts, 2009; Shaklfrd and Shlvyn, 2008).

The reasons for the performance of the opinions expressed in ohms, Gran Horn et al (2006), Lehmann (2004), Bakydvr (1997) and Jahankhani and elegant one (1384) the following expression:

1. Ensuring shareholders and creditors of the firm's allocation of limited resources
2. Create a management control system, especially in economic planning and control decisions
- 3-rational decisions by firms
4. ensure the company's ability to create value (economic and social)
5. The basis for the guidelines, circulars and rules and outside the organization
6. The basis for pay or reward executives

The company's performance shows managers how they have been able to shareholder value creation, and to this end measures of firm performance varied, for example the ratio of market value to book value (Jeannie foot et al., 2005), Return on Equity, ROA, and EVA (through 2007).

A review of studies in recent years has been the importance of conservatism and its impact on the company's various functions realized. Among the research conducted at the National Research, Trends and colleagues (2006), Garcia and Lara (2006), Lafond and Watts (2007), Giuli et al (2007), Lafond et al (2008), Gerald J. Lobo et al. (2008), Zhang (2008), Cullen Segal and Hope (2009), Ahmad Dolmen (2010), Garcia Lara et al. (2010), Jeannie foot and colleagues (2010), Château and Takadv (2010), Tayvma (2010) and in the midst of an internal investigation research Banimahd (2006), KORDLAR monarchy (2010), M. et al. (2010), Khan Begay (2010) and jamalian pour praise (2011) to investigate the relationship between conservatism with different criteria firm performance they have payed. So in this article to study the relationship between conservatism with economic and financial measures to evaluate performance pay.

Analytical models:

In this study conservatism as an independent variable and variable rate of return on assets, return on equity, market value ratio and Tobin are as dependent variable. The combination of time series and cross-sectional analytical model. The model used for the evaluation of conservatism accruals. Wings and Shyvakvmar (2005) model using the accruals to measure conservatism offered.

$$ACCD = b_0 + b_1 * DCF_{i,t} + b_2 * CF_{i,t} + b_3 DCF_{i,t} * CF_{i,t} + E_{i,t}$$

In this model ACCD total accruals, CF and CDF variable virtual operating cash flow. In case of negative operating cash flow of an otherwise equal to zero. In this regard b_2 , the correlation between accruals and cash flows when there is good news and $b_3 + b_1$ correlation between accruals and cash flows when there is bad news measures. Conservatism means that when there are negative cash flows, accruals due to unrealized losses recognized faster, more likely to be negative. While this relationship when there is positive cash flows There is no greater or b_3 , asymmetric behavior for economic gain and loss (good and bad news) and thus will be more conservative. The advantages of this model is to measure conservatism is not reliant on market returns.

Hypotheses:

1. Between Conservatism and there is a significant relationship between the rate of return on assets.

2. Return on equity is a significant relationship between conservatism and there.
3. There is a significant relationship between conservatism and Tobin's Q ratio.
4. There is a significant relationship between conservatism and market value added.

Research methodology:

The study of the correlation and quasi-experimental methodology and the nature and objectives of the application. The study consisted of 431 companies listed in the Tehran Stock Exchange. A sample of 87 companies was selected using the elimination method had the following conditions:

1. Companies need financial statements including balance sheets, profit and loss and cash flow statement have.
2. The Company's fiscal year ended on March each year.
3. The information required to be calculated variables.
4. The fundamental purpose of financing are companies that, since no accruals are deleted.

5. The companies should have over the years in exchange activities.

For data collection and research, library (with the information related to the theoretical foundations and literature) and field method (with the data needed for research to test hypotheses, by referring to the audited financial statements of listed companies in Library of stock in the stock and software "measure processor" as well as websites www.rdis.ir) is used and research data using linear regression models were analyzed as well as software Eviews and Spss.

Results:

The findings of the survey results, the hypothesis is expressed as follows:

Check Hypothesis 1:

H₀: independent variable coefficient is zero (conservative on returns not affect the company's assets)

H₁: coefficient independent variable is not zero (conservative influence on the efficiency of the company's assets)

Table 1) The results of the regression equation fitted to the first hypothesis

Variable Name		Variable coefficient	Coefficient	Statistics t	The significance level
constant number		0 β	522/0	873/2	004/0
CON	Conservatism	1 β	368/0	231/2	036/0
The coefficient of determination		137/0	Statistics F		765/14
Adjusted coefficient of determination		121/0	Meaningful (p-value)		0.000
			Durbin-Watson statistic		018/2

According to Table 1, the statistic F (765/14) regression model is meaningful whole. The coefficient of determination shows that about 13.7 percent of the variable in the regression equation return on assets are explained by the variable conservatism. The significance of variable conservatism has been confirmed and the return on assets have a significant impact on the confidence level of 95%. In fact, according to the coefficient of variation can say

positive direct relationship between two variables, resulting in increased conservatism leads to an increase in return on assets in the companies surveyed.

Check Hypothesis 2:

H₀: independent variable coefficient is zero (conservative influence on the company's return on equity)

H₁: coefficient independent variable is not zero (conservative influence on the company's return on equity)

Table 2) results from the fitted regression equation of the second hypothesis

Variable Name		Variable coefficient	Coefficient	Statistics t	The significance level
constant number		0 β	651/0	223/0	823/0
CON	Conservatism	1 β	441/0	956/3	0093/0
The coefficient of determination		178/0	Statistics F		342/10
Adjusted coefficient of determination		189/0	Meaningful (p-value)		0.000
			Durbin-Watson statistic		134/2

According to Table 2, the statistic F (342/10) regression model is meaningful whole. The coefficient of determination shows that the regression equation about 17.8 percent of the company's return on equity be explained by the variable conservatism. The significance of the changes has been confirmed and conservative values the company at 95% return on equity have a significant impact. In fact, according to the coefficient of variation can say positive

direct relationship between two variables, resulting in increased conservatism leads to an increase in return on equity in the companies surveyed.

Check Hypothesis 3:

H₀: independent variable coefficient is zero (conservative on Tobin's Q ratio is not influential companies)

H₁: coefficient independent variable is not zero (conservative on Tobin's Q ratio is influential companies)

Table 3) the results of the regression equation fits the third hypothesis

Variable Name		Variable coefficient	Coefficient	Statistics t	The significance level
constant number		0 β	445/0	433/3	0.000
CON	Conservatism	1 β	177/0	162/2	381/0
The coefficient of determination		109/0	Statistics F		309/8
Adjusted coefficient of determination		091/0	Meaningful (p-value)		0.000
			Durbin-Watson statistic		098/2

According to Table 3, the statistic F (309/8) regression model is meaningful whole. The coefficient of determination shows that the regression equation about 9-10% of Tobin's Q ratio changes are explained by the variable conservatism. The significance of conservatism has been confirmed and variable Tobin's Q ratio at 95% have a significant impact. In fact, according to the coefficient of

variation can say positive direct relationship between two variables, resulting in increased conservatism leads to an increase in Tobin's Q ratio is now under investigation.

Check Hypothesis 4:

H₀: independent variable coefficient is zero (conservative VAT not affect the company's market)

H₁: coefficient independent variable is not zero (conservative VAT affects market)

Table 4) the results of the fitted regression equation of the fourth hypothesis

Variable Name		Variable coefficient	Coefficient	Statistics t	The significance level
constant number		0 β	229/0	709/2	0.000
CON	Conservatism	1 β	504/0	032/5	0.000
The coefficient of determination		337/0	Statistics F		812/27
Adjusted coefficient of determination		321/0	Meaningful (p-value)		0.000
			Durbin-Watson statistic		835/1

According to Table 4, the statistic F (812/27) regression model is meaningful whole. The coefficient of determination shows that the regression equation about 7/33 percent of market value changes are explained by the variable conservatism. The significance of conservatism has been confirmed and variable VAT at 95% market have a significant impact. In fact, according to the coefficient of variation can say positive direct relationship between two variables, resulting in increased conservatism leads to the market value of the companies surveyed.

Discussion and conclusion:

For the purpose of this study is to investigate the relationship between conservatism with economic measures and financial companies listed on Tehran Stock Exchange results of four hypothesis showed a significant relationship between conservatism and economic criteria and funding that results of research Giuli and Hine (2007) and Zhang (2008) is consistent.

rising conservatism on increasing the return on assets in the companies surveyed admitted that the result of the findings Ahmad Dolmen (2010) is consistent. shares in the companies surveyed admitted that the result of the findings mods et al (2006), Lafond and Watts (2007), Cullen Segal and Hope (2009) is consistent. companies surveyed agreed. companies surveyed agreed with the findings of jeans (2010) is consistent.

In general, firms with knowledge of the benefits and costs of adopting a conservative approach, should explain their proper perspective. Several studies suggest that in normal circumstances to adopt this approach because the benefits outweigh the costs of its conservative approach. Researchers like Zhang (2008), Trends and colleagues (2006), Garcia and Lara (2006), Lafond and Watts (2007), Jewel (2007), Lafond et al (2008), Gerald et al. (2008), Cullen Segal and Hope (2009), Ahmad and Dolmen (2010), Garcia Lara et al. (2010), Château and Takadv (2010) stated that in the preparation of financial reporting should be conservative in Karbbndnd and the results of this research is aligned. Conservatism different advantages, including contracts efficiently, reduce litigation, reduce or postpone tax, neutralizing the tendency of favoring managers, reducing

the cost of political wrangling between creditors and shareholders, information asymmetry in small companies and increasing the quality of financial information is. The conservative approach to spending, including reducing expectations of future performance of business units should also be considered.

Hence it is recommended that standard-setting bodies in developing specific standards for each industry to influence conservative approach in the financial statements note. Analysts and investors also have the effect of conservatism at the time of the capital increase by the company's management to convince them to pay attention.

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