



The Relationship between Audit Quality & Accrual-based Earnings Management: Evidences from Profitability and Liquidity Weakness

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Abstract

This research focuses on the relationship between audit quality and accrual-based earnings management by considering profitability and liquidity weakness. Accrual based earnings management is measured based on the adjusted model proposed by Dechow et al (1995). The magnitude of auditor is a proxy for audit quality. Weakness in profitability and liquidity are considered as distress conditions inside the firms. The research main hypotheses analyzed by using multivariate regression model based on panel data method. The sample contains 217 firms listed in Tehran Stock Exchange over the period of 2010 to 2015. The results show that there is a negative significant relationship between audit quality and accrual-based earnings management is. However, by considering the firm's financial distress conditions, the relationship between audit quality and accrual-based earnings management is still significant and negative. These findings show that financially distressed firms audited by big auditors exhibit lower earnings management. Evidences reveal that size, operational profit ratio and debt ratio have significant and positive impact on accrual-based earnings management; but market to book value ratio and operational cash flows ratio have significant and negative impact on accrual-based earnings management.

Keywords: Audit Quality, Accrual Earnings Management, Profitability and Liquidity Weakness.

JEL: M41, M42, G33

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Corporate social responsibility and their implied cost of capital

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Abstract

Implied cost of capital (ICC) is based on profitability used to measure shareholders' expected return. On the other hand, corporate social responsibility is management's commitment to gain economic benefits for shareholders by considering public interest and compliance with ethical, social and humanitarian aspects of regulations. In order to study the relationship between corporate social responsibility and implied cost of capital, we apply Carroll's corporate social responsibility model in which some proxies are considered for economical, legal, ethical, and philanthropy. Data Envelopment Analysis (DEA) method, BCC output oriented model are used to measure corporate social responsibility and Easton model is applied to measure implied cost of capital. The sample includes 60 listed firms in Tehran Stock Exchange over the period of 2004 to 2014. The results show that there is a negative and significant relationship between corporate social responsibility and their implied cost of capital.

Keywords: Corporate Social Responsibility, Implied Cost of Capital, Data Envelopment Analysis

JEL: G11, G32

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Analysis of earnings management influence on the investment inefficiency

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Abstract

Abstract: The main objective of this study is to investigate the effects of earnings management on investments inefficiency in companies listed in the Tehran Stock Exchange. The findings of previous studies, suggest that one of consequences of earnings management, is increasing in excess investment (over or under-investment) in companies. In order to test the hypotheses, a sample of 98 companies over 2004 to 2014 is examined using multivariate regression models. For this purpose, the residual cash flow pattern by Jensen (1986) and cash flow developed pattern by Richardson (2006) is used to calculate the investment inefficiency. The positive and negative residuals will represent over-investments and under investments, respectively which is used as a proxy for investment inefficiency. Also, discretionary revenues and discretionary accruals are proxies for earnings management. The results show an insignificant relationship between earnings management and inefficient investment.

Keywords: Over-investment, Under-investment, Earnings management, Investment inefficiency

JEL: M41, G11

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The effect of managerial ability on investment efficiency in the firms listed in Tehran stock exchange

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Abstract

Firm's survival and activity expansion requires an appropriate, on time, and efficient investment. Efficient managers optimally use Firm's resources to achieve the organization goals, so they earn more return on the firm limited resources. Therefore the aim of this research is to investigate the effect of managerial ability on investment efficiency. With the sample contains 99 companies listed in Tehran Stock Exchange over the years of 2009 to 2015. In this study Verdi's (2006) model is used to measure the investment efficiency. Also Demerjian's (2012) model with DEA method is used to measure the managerial ability. In order to examine the hypothesis of the study multiple regression equations with panel data is used. The results show that financial reporting quality has a positive effect on the investment efficiency. Also the managerial ability has a positive effect on the investment efficiency.

JEL: M41

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Relationship between Type of External Auditor and Cost Stickiness

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Abstract

External auditing is an element of external corporate governance mechanisms that can effectively restrict a manager's opportunistic behavior and reduce cost stickiness. In this paper, relationship between types of external auditor and cost stickiness is investigated among 142 companies listed in Tehran Stock Exchange over the years of 2010 to 2015. We classify external auditors into two types based on their quality ranking by Security and Exchange Organization: 1- audit institutions in first quality ranking and 2- other audit institutions. The Results show that auditing by institutions in first quality ranking could reduce cost stickiness.

Keywords: external auditor, cost stickiness, manager's opportunistic behavior

JEL Classification code: M40, M41

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The Effect of Risk-taking and Organizational Culture on Debt Policy

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Abstract

The aim of this study is to evaluate the effect of risk-taking and organizational culture on debt policy. If managers have more courage to take risks, they attempt to get more facilities, so debt levels increase and can lead to an increase in performance levels of the organization. Risk-taking has been pointed out in organizational culture patterns and has been stated that in higher levels of organizational culture, there are higher risk-taking expectations from the managers. The current study evaluation of risk-taking and organizational culture was carried out through questionnaires in 2016 and financial information of the responding companies used for the evaluation of debt policy. The sample contains 50 companies. Least squares regression is used to test the hypotheses of the research. Results show that, there is a significant positive relationship between risk-taking and debt policies in three levels of total, short-term and long-term and between organizational culture and debt policies in three levels of total, short-term and long-term. The relationship between risk-taking and debt policy is stronger.

Keywords: Risk-taking, Organizational culture, Debt policies.

JEL Classification code: M14, M10.

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Examining the Relationship between Corporate Governance Mechanisms and Accruals Anomaly

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Abstract

This research examines the relationship between some governance variables and accruals anomaly. Research is performed over the years of 2010 to 2015 among 137 companies listed in Tehran stock exchange. Four governance variables in this research are percentage of institutional investors, percentage of non-executive board members, separation of CEO and chairman roles, and type of auditor. Ordinary least square regression is used to test hypotheses. Results show that there is a significant relationship between percentage of institutional investors, separation of CEO and chairman roles, and type of auditor with accruals anomaly, while there is no significant relationship between percentage of non-executive board members and accruals anomaly.

Keywords: Corporate Governance, Accruals Anomaly, Percentage of Institutional Investors, Percentage of Non-Executive Board Members

JEL: M41, G34

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