SURVEYING THE RELATIONSHIP BETWEEN ACCRUALS AND THE EARNINGS QUALITY IN TEHRAN STOCK EXCHANGE ACCEPTED COMPANIES

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Abstract
The purpose of this research is the study surveying the relationship between accrual earnings quality due to Dechow & Dichev model (2002) and Richardson and his coworker’s model (2004) in financial reporting of accepted companies in Tehran stock exchange. Seventy one companies have been studied throughout this research. In order to experience the hypothesis, Regression models in composing case (with fixed effect) and sectional in economical – measuring software E view 6 have been used. The finding of the research show that there is a negative relation but meaningless between optional accruals items (earning management) and earning quality scale due to Dechow & Dichev model and Richardson and his coworkers model. And there are 0.04 and 0.12 of earning quality changes in order due to two models mentioned above affected by accruals items vice versa. This matter shows that the earning management has caused to decrease the earnings quality scale to some extent during the research period, namely earnings management has been kind of opportunism. There is a negative and meaningless relation between optional accruals items and earnings quality Scale. Too due to Richardson his coworkers’ model totally and there is 0.11 of earnings quality changes vice versa under the effect of optional accruals items that this subject shows the ineffectiveness of approaches and standard methods in increasing earnings quality during the research. It is necessary to mention that the relation between optional accruals items and earning quality scale due to Dechow & Dichev model has been positive that it isn’t relation because of having the lower stability of this model.

Key words: Accruals items, Earnings quality, Tehran stock exchange.

INTRODUCTION
In order to be compliant with GAAP (Generally Accepted Accounting Principles), the University must include in its financial statements all expenses that are incurred during the year, as well as all income earned during the year. Accrual (accumulation) of something is, in finance, the adding together of interest or different investments over a period of time. It holds specific meanings in accounting, where it can refer to accounts on a balance sheet that represent liabilities and non-

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cash-based assets used in accrual-based accounting. These types of accounts include, among others, accounts payable, accounts receivable, goodwill, deferred tax liability and future interest expense [1]. For example, a company delivers a product to a customer who will pay for it 30 days later in the next fiscal year, which starts a week after the delivery. The company recognizes the proceeds as a revenue in its current income statement still for the fiscal year of the delivery, even though it will get paid in cash during the following accounting period [2]. The proceeds are also an accrued income (asset) on the balance sheet for the delivery fiscal year, but not for the next fiscal year when cash is received.

Similarly, a salesperson, who sold the product, earned a commission at the moment of sale (or delivery). The company will recognize the commission as an expense in its current income statement, even though the salesperson will actually get paid at the end of the following week in the next accounting period. The commission is also an accrued expense (liability) on the balance sheet for the delivery period, but not for the next period when the commission (cash) is paid out to the salesperson.

According to Kothari (2003) accrual accounting is:

- Measures performance by comparing revenues (which are recognized when the earning process is complete) with expenses (which are recognized when assets are consumed or liabilities are created).
- Geared toward periodic performance measurement that is not skewed by investment, financing, and long-horizon operational activities
- Based not only on cash transactions but also on credit transactions, barter exchanges, changes in prices, changes in form of assets or liabilities, and other transactions.
- Records events that have cash consequences for an enterprise
- But does not require a concurrent cash movement in order to record a transaction.

Earnings quality is one of the most important characteristics of financial reporting systems. High quality is said to improve capital market efficiency, therefore investors and other users should be interested in high-quality financial accounting information. For that reason, standard setters strive to develop accounting standards that improve earnings quality, and many recent changes in auditing, corporate governance, and enforcement have a similar objective [4].

Earnings quality is used in numerous empirical studies to show trends over time; to evaluate changes in financial accounting standards and in other institutions, such as enforcement and corporate governance; to compare financial reporting systems in different countries; and to study the effect of earnings quality on the cost of capital.

Barker and Imam (2008) examines sell-side analysts’ perceptions of ‘earnings quality’. An inductive approach is used that combines interview data with content analysis. The authors conclude that the concept of earnings quality is both accounting-based (relating to notions of core or sustainable earnings, cash and accrual components of earnings, and accounting policies) and non-accounting-based (relating to information drawn from outside the financial statements). It is relatively unusual for an analyst’s opinion to be both negative and accounting-based. If, however, an analyst does express negative, accounting-based views on earnings quality, then he or she is highly unlikely to be positive in other respects. The authors interpret this evidence to be consistent with analysts’ economic incentives to generate trading volume yet to be favorably biased towards companies, while seeking to use value-relevant information relating to earnings [5].

Niu (2006) seeks to examine the association between corporate governance mechanisms and the quality of accounting earnings. Quality of earnings is measured in two ways: the accounting-
based measure of earnings management and the market-based measure of earnings in formativeness. Using firm-level corporate governance data for a sample of Canadian firms in the years 2001-2004, regression analysis is employed to express the relation between corporate governance (including board composition, management shareholding, shareholders’ rights and the extent of disclosure of governance practices) and the quality of earnings. Empirical tests demonstrate that overall governance quality is negatively related to the level of abnormal accruals and positively influences the return-earnings association. Also, the magnitude of abnormal accruals is negatively associated with the level of independence of board composition, the extent of alignment of management compensation with interests of shareholders and the strength of shareholder rights. The results from the returns and earnings analysis are consistent with these findings [6].

Lo (2008) study builds on prior research on earnings management and earnings quality. The works of Ball and Shivakumar [2008] and Teoh et al. [1998] are used to illustrate the application of seven components of a crime scene investigation to earnings management research [7]. Akers, Giacomino and Bellovary (2007) believe that financial frauds and failures, the accounting profession has placed renewed emphasis on issues related to earnings management and earnings quality. Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements, which was issued in December 1999 illustrates the importance of earnings to the SEC. The SEC and the public are demanding greater assurance about the quality of earnings. Notwithstanding the grave threat that abusive earnings-management practices pose to the reliability and accuracy of financial statements, the accounting profession may be reluctant to address this issue. Education could help to reduce the expectations gap between auditors and financial statement users [8].

The main aim of this study is surveying the relationship between accruals and the earnings quality in Tehran stock exchange accepted companies. For this purpose we developed one main hypotheses (There is a meaningful relation between earnings management and reported earnings quality by accepted companies in Tehran stock exchange) and two sub- hypotheses:

- There is a meaningful relation between optional factors of earnings management and reported earnings quality by the accepted companies in Tehran stock exchange.
- There is a meaningful relation between UN optional factors of earnings management and reported earnings quality by the accepted companies in stock exchange.

METHODOLOGY

The statistical of this research is the accepted companies in Tehran stock exchange, the existence of some no equals among the accepted companies in Tehran stock exchange caused that some special situations must be considered for the selection of studied companies that they are as following:

1. The selected sample companies must be accepted in Tehran stock exchange since 2001.
2. The companies should not change the financial period and their financial year leads to March 29th.
3. It must not be included investing companies and financial intermediary.

By keeping the above situations in mind, seventy one companies (355 company) have been selected and studied.

As this research is trying to find out the relation between two information groups in a community namely earnings management and earnings quality is as a correlation researches. On the other hand, this research is a kind of post- events, namely it is accomplished on the basis of the
analysis of previous information (Companies statements). The earning management has been considered as an independent variant and earning quality as a dependent variant in this research.

**FINDINGS**

Descriptive statistics of research variants show in table one composing that among independent variants, optional accruals items (DACC) (earning management has the lowest changes indexes (The result of dividing criterion deviation by average) and independent variant of un optional accruals items (NDACC) has the highest changes indexes vice versa and while earnings quality has very lower indexes and distribution in financial statement due to Richardson model and coworkers (REQ) in comparison with Dichow & Dichev model (DDEQ) among the dependent research. This subject shows that Richardson his coworkers model has higher stability and reliance in the measurement of earning quality scale, being lower of earning management distribution in studied companies in comparison with distribution Scale of earnings management in the basis of two models mentioned above denoted this subject that earnings quality scale is influenced by other factors except earnings management (optional accruals items) that it must be identified and appointed by next researches.

Table 1: The summery of the result of this research in Sectional case

<table>
<thead>
<tr>
<th>Criterion Relation</th>
<th>Appointment indexes</th>
<th>F</th>
<th>t</th>
<th>Relation intensity (regressive indexes)</th>
<th>Relation type</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>DACC &amp; DDEQ</td>
<td>0.007</td>
<td>0.4721</td>
<td>0.4721</td>
<td>0.017</td>
<td>Negative</td>
<td>2003</td>
</tr>
<tr>
<td>NDACC &amp; DDEQ</td>
<td>0.007</td>
<td>0.4944</td>
<td>0.4944</td>
<td>0.057</td>
<td>Negative</td>
<td>2003</td>
</tr>
<tr>
<td>DACC &amp; REQ</td>
<td>0.03</td>
<td>0.1301</td>
<td>0.1301</td>
<td>0.098</td>
<td>Negative</td>
<td>2003</td>
</tr>
<tr>
<td>NDACC &amp; REQ</td>
<td>0.25</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.936</td>
<td>Negative</td>
<td>2003</td>
</tr>
<tr>
<td>DACC &amp; DDEQ</td>
<td>0.05</td>
<td>0.0576</td>
<td>0.0576</td>
<td>0.115</td>
<td>Negative</td>
<td>2004</td>
</tr>
<tr>
<td>NDACC &amp; DDEQ</td>
<td>0.11</td>
<td>0.0038</td>
<td>0.0038</td>
<td>0.255</td>
<td>Negative</td>
<td>2004</td>
</tr>
<tr>
<td>DACC &amp; REQ</td>
<td>0.008</td>
<td>0.5178</td>
<td>0.5178</td>
<td>0.071</td>
<td>Negative</td>
<td>2004</td>
</tr>
<tr>
<td>NDACC &amp; REQ</td>
<td>0.10</td>
<td>0.0049</td>
<td>0.0049</td>
<td>0.439</td>
<td>Negative</td>
<td>2004</td>
</tr>
<tr>
<td>DACC &amp; DDEQ</td>
<td>0.01</td>
<td>0.2732</td>
<td>0.2732</td>
<td>0.076</td>
<td>Negative</td>
<td>2005</td>
</tr>
<tr>
<td>NDACC &amp; DDEQ</td>
<td>0.03</td>
<td>0.1017</td>
<td>0.1017</td>
<td>0.115</td>
<td>Negative</td>
<td>2005</td>
</tr>
<tr>
<td>DACC &amp; REQ</td>
<td>0.01</td>
<td>0.5850</td>
<td>0.5850</td>
<td>0.099</td>
<td>Negative</td>
<td>2005</td>
</tr>
<tr>
<td>NDACC &amp; REQ</td>
<td>0.01</td>
<td>0.9936</td>
<td>0.9936</td>
<td>0.001</td>
<td>Negative</td>
<td>2005</td>
</tr>
<tr>
<td>DACC &amp; DDEQ</td>
<td>1.01</td>
<td>0.9116</td>
<td>0.9116</td>
<td>0.006</td>
<td>Negative</td>
<td>2007</td>
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<tr>
<td>NDACC &amp; DDEQ</td>
<td>0.01</td>
<td>0.8563</td>
<td>0.8563</td>
<td>0.011</td>
<td>Negative</td>
<td>2007</td>
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<tr>
<td>DACC &amp; REQ</td>
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<td>0.7538</td>
<td>0.7538</td>
<td>0.076</td>
<td>Negative</td>
<td>2007</td>
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<tr>
<td>NDACC &amp; REQ</td>
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<td>0.7476</td>
<td>0.7476</td>
<td>0.083</td>
<td>Negative</td>
<td>2007</td>
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<tr>
<td>DACC &amp; DDEQ</td>
<td>0.009</td>
<td>0.5622</td>
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<td>0.046</td>
<td>Negative</td>
<td>2008</td>
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<tr>
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<td>0.007</td>
<td>0.4859</td>
<td>0.4859</td>
<td>0.059</td>
<td>Negative</td>
<td>2008</td>
</tr>
<tr>
<td>DACC &amp; REQ</td>
<td>0.01</td>
<td>0.3950</td>
<td>0.3950</td>
<td>0.225</td>
<td>Negative</td>
<td>2008</td>
</tr>
<tr>
<td>NDACC &amp; REQ</td>
<td>0.01</td>
<td>0.8457</td>
<td>0.8457</td>
<td>0.055</td>
<td>Negative</td>
<td>2008</td>
</tr>
</tbody>
</table>

**CONCLUSION**

The main idea of this research is the studying of the relation between accruals items whether optional or an optional and earnings quality due to Dechow & Dichev model and Richardson and his coworkers’ model in financial reporting of accepted companies in Tehran stock exchange. Seventy one companies have been studied for accomplishing this research during 2003-2007, four regressive models have been estimated for experiments of research hypothesis in correlation case with positive effects that it concludes as following.
1. There is a negative and meaningless relation between optional accruals items and earnings quality scale due to Dichow & Dichev model during five years researching on 0.04 of earnings quality changes affected by optional accruals items (earnings management).

2. There is a positive and meaningful relation between an optional items and earning quality scale due to Dechow & Dichov model during five years researching and there is 0.04 of earning quality changes directly influenced by non-optional accruals items that this subject shows the effect of this approaches and standard methods in increasing earnings quality during the research.

3. There is a negative and meaningless relation between optional accruals items and earning quality scale due to Richardson and his coworker’s model during five years researching and there is 0.12 of earnings quality changes vice versa affected by optional accruals items (earnings management). This subject shows that earnings management has caused to decrease earning quality scale increasingly.

4. There is a negative and meaningless relation quality non-optional accruals items and earnings quality scale due to Richardson and his co-workers model during five years researching and there is 0.11 of earnings quality changes vice versa affected by non-optional accruals items, that this subject shows ineffectiveness in increasing earning quality during the research.

The result of this research has been aligned with schiper (1989), Ball and Shivakumar (2008). And keen loo (2008).

References