Investigating the Relationship between Accounting Conservatism on Earnings Quality and Stock Price in Corporations of Accepted in Tehran Stock Exchange

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Abstract
The purpose of this study is investigating the Relationship between Accounting Conservatism with Earnings Quality and Stock Price in Corporations of Accepted in Tehran Stock Exchange in during time 2011-2015. This current research in terms of purpose, it is applied research and in terms of method, it is descriptive – correlational research. This study has 4 Hypotheses, Combined multivariate linear regression tests to test the hypothesis (year - the company) is used. In this research to test the hypothesis F test and autocorrelation tests are used. The statistical population of this research is all of listed Firms in Tehran Stock Exchange, and time domain is during on 2010-2015 and the number of 96 companies by using systematic removal method has chosen. Research findings in this research show that there is significant relationship between conditional conservatism and unconditional conservatism and earnings quality. Also that there is significant relationship between conditional and unconditional conservatism and stock price. In other words, increasing the amount of conservatism in events (unconditional) with earnings quality is less (negative relationship between unconditional conservatism and earnings quality and stock price) and also to increase the conservatism of the events (conditional) by increasing the quality of earnings (positive relationship between conservatism and earnings quality and stock price) is associated.

Keywords: Conditional Conservatism, Unconditional Conservatism, Earnings Quality, Stock Price, Information Asymmetry.
Introduction
This study has done to investigate the Relationship between Accounting Conservatism with Earnings Quality and Stock Price. Conditional conservatism, from the unconditional conservatism which includes of the book value of the net assets less than real-determined limit, and spending is often intangible assets, is separate (Ann L.C. Chan and et al., 2009). Earnings quality is another issue that in recent years the company has become the focus of attention in assessing financial performance. Net profit is different from the actual performance of the economic entity cannot be fully played its role in decision-making and in this case the earnings quality is lower. Therefore, it is necessary to improve earnings quality issues that divert profits from the consequences of the economic entity to be recognized and it is necessary in order to meet the criteria as quality of earnings used for this purpose.

Earnings quality in assessing a company can only criteria to be considered, but also the quality and composition of earnings as a starting point for any analysis, judgment and assessment of the results of operations should be considered. In other words, the value per share depends not only to earnings per share in the current year, but also our expectations of future corporate profitability coming years, confidence in future earnings depend ratio (Bushee B. J and et al., 2008).

Research Problem
Two main groups of finance companies are creditors and investors. All of these groups are constantly looking for quick profits. Each of both groups following receipt their interest. Creditors always seek to receipt principal and loans forms and shareholder seek to expect returns from the activities of the company and stock price changes in term of growing activities of company. Creditors and investors in their decisions to invest and validation, assessment of the company considered. The company, the ability to have greater access to sources of funding, is more flexible (Ebrahimi Kordlar et al., 2011).

The necessity of this research is to analyze and study fundamental factors that can play a special role in the decision-making process. In this study is to assess the effects of various aspects of accounting conservatism (conditional and unconditional) on earnings quality and stock price review as well as adopting intelligence, is the role of accounting conservatism in financial reporting.
Conceptual model

Research Background
Ghash et al (2014) Quality of earnings and rate of profit reaction, a stable increase in profit and sales looked. Their results showed that companies with earnings growth combined with increased sales, profits and earnings response coefficient higher quality companies with earnings growth combined with the reduction of expenses. Francis et al (2013) the relationship between earnings quality with specific cost of debt and equity examined the specific cost of equity. In this study, the relationship between earnings quality eight indicators specific cost of debt and the specific cost of equity is considered normal. The results indicate that companies with low earnings quality compared to companies with high earnings quality, has higher cost of debt and cost of equity. The Francis et al (2015) concluded that AQ for this affects the cost of financing. In addition, the cost of capital of companies with low accruals quality is more.
Saghafy and Kurdestani (2015) examine the relationship between earnings quality and market reaction to changes in cash dividends paid. The results show that investment in the Tehran Stock Exchange during the reaction to dividend changes, earnings quality companies not considered.
Khajavi and Nazemi (2015) the relationship between earnings quality and stock returns were examined with emphasis on role of accrual accounting. The results mean stock returns, under the influence of accruals and related components are not described in this document.
Research Hypotheses:

**First Hypothesis:** There is significant relationship between conditional conservatism and Earnings Quality

**Second Hypothesis:** There is significant relationship between conditional conservatism and Stock Price

**Third Hypothesis:** There is significant relationship between unconditional conservatism and Earnings Quality

**Fourth Hypothesis:** There is significant relationship between unconditional conservatism and Stock Price

**Research Method:**
According to this study that has done to investigate the Relationship between conditional Conservatism with Earnings Quality and Stock Price in Corporations of Accepted in Tehran Stock Exchange, Thus this current research in terms of purpose, it is applied research and in terms of method, it is descriptive – correlational research.

**Statistical Population**
The research carried in a five-year period, according to companies’ financial statements for years 2010 to 2015 is chosen. However, according to test hypotheses need to calculate the changes for this year (t) compared to the year (t-1), to calculate some variables need information in 2007 as well. Thus, statistical population of this research is Corporations of Accepted in Tehran Stock Exchange, during time of 2010 to 2015 and the number of companies is 96 companies.

**Research Findings**
1) The first Hypothesis test
Due to lack of significant statistics, F Leamer (1.57), Model (2-3) was estimated with fixed effects and outcomes in figure (4-7) are provided.
Table 1) the results of Basu model

\[
\frac{E_{i,t}}{F_{i,t-1}} = \alpha_0 + \beta_1 * D_{i,t} + \beta_2 * R_{i,t} + \beta_3 * D_{i,t} * R_{i,t} + \beta_4 \frac{CFQ_{it}}{N_{it}} + \beta_5 \frac{CFQ_{it}}{N_{it}} * R_{i,t} + \\
\beta_6 \frac{CFQ_{it}}{N_{it}} * D_{i,t} + \beta_7 \frac{CFQ_{it}}{N_{it}} * D_{i,t} * R_{i,t} + \beta_8 \frac{SIZE_{it}}{N_{it}} + \beta_9 \frac{SIZE_{it}}{N_{it}} * R_{i,t} + \beta_10 \frac{SIZE_{it}}{N_{it}} * D_{i,t} + \\
\beta_11 \frac{SIZE_{it}}{N_{it}} * D_{i,t} * R_{i,t} + \beta_12 LEV_{it} + \beta_13 LEV_{it} * R_{i,t} + \beta_14 LEV_{it} * D_{i,t} + \beta_{15} LEV_{it} * D_{i,t} * R_{i,t} + \epsilon_{it}
\]

<table>
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<th>Variables</th>
<th>Coefficient</th>
<th>Student's T test</th>
<th>Significant</th>
</tr>
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<tr>
<td>Intercept</td>
<td>-4.91</td>
<td>-5.26</td>
<td>0.00</td>
</tr>
<tr>
<td>(D_{i,t})</td>
<td>0.13</td>
<td>8.69</td>
<td>0.00</td>
</tr>
<tr>
<td>(R_{i,t})</td>
<td>-6.42</td>
<td>-5.58</td>
<td>0.00</td>
</tr>
<tr>
<td>(D_{i,t} * R_{i,t})</td>
<td>2.30</td>
<td>0.89</td>
<td>0.37</td>
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</table>
Fisher statistic (F) is equal to (44.26) that it was significant and the model shows significant. Durbin-Watson test used to test model errors autocorrelation. The second is desirable for its lack of solidarity. If this statistic is 1.5 to 2.5, autocorrelation in the model error values can be rejected. For this, given that the Durbin-Watson statistic is equal to 1.59, the autocorrelation in the model error values can be rejected. The adjusted coefficient of determination is equal to 58%, which means that about 58 percent of the changes for this dependent variable explained by the independent variables. Coefficient $\beta_7$ is equal to 1.47 and it is significant at 1% and indicates a significant and positive relationship between conservatism and earnings quality. This means that with the increase of conditional conservatism, earnings quality increased. So $H_0$ is rejected and the first hypothesis as "there is a significant relationship between conditional conservatism and earnings quality" is accepted.

The Second Hypothesis Test

Table 2) the results of second hypothesis model

$$E_{it}/p_{it-1} = \alpha_0 + \beta_1 * D_{it} + \beta_2 * R_{it} + \beta_3 * D_{it} * R_{it} + \beta_4 * P_{it} + \beta_5 * P_{it} * R_{it} + \beta_6 * P_{it} * R_{it} * D_{it} * R_{it} + \beta_9 * SIZE_{it} + \beta_9 * SIZE_{it} * R_{it} + \beta_{10} * SIZE_{it} * D_{it} + \beta_{11} * SIZE_{it} * D_{it} * R_{it} + \beta_{12} * LEV_{it} + \beta_{13} * LEV_{it} * R_{it} + \beta_{14} * LEV_{it} * D_{it} + \beta_{15} * LEV_{it} * D_{it} * R_{it} * \epsilon_{it}$$

<table>
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<th>Variables</th>
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<tr>
<td>Intercept</td>
<td>-3.76</td>
<td>-3.59</td>
<td>0.00</td>
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<tr>
<td>$D_{it}$</td>
<td>0.15</td>
<td>8.11</td>
<td>0.00</td>
</tr>
<tr>
<td>$R_{it}$</td>
<td>-8.39</td>
<td>-6.57</td>
<td>0.00</td>
</tr>
<tr>
<td>$D_{it} * R_{it}$</td>
<td>1.64</td>
<td>0.57</td>
<td>0.56</td>
</tr>
<tr>
<td>$P_{it} * D_{it} * R_{it}$</td>
<td>0.01</td>
<td>1.24</td>
<td>0.02</td>
</tr>
<tr>
<td>$SIZE_{it} * D_{it} * R_{it}$</td>
<td>2.46</td>
<td>1.88</td>
<td>0.06</td>
</tr>
<tr>
<td>$LEV_{it} * D_{it} * R_{it}$</td>
<td>1.31</td>
<td>2.47</td>
<td>0.01</td>
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Adjusted coefficient of determination 0.49
Fisher statistic (F) is equal to (74.29) that it was significant and the model shows significant. Considering the fact that the statistic Durbin-Watson is equal to 1.48 has been ignored by the 0.02 different from the range of optimal Durbin Watson for lack of autocorrelation, it can be concluded that the existence of autocorrelation in error terms model is rejected. Also, the adjusted coefficient of determination is equal to 49%, which means that about 49 percent of the changes for this dependent variable explained by the independent variables. Coefficient $\beta_7$ is equal to 0.01 and it is significant at level of 5% and indicates a significant and positive relationship between conservatism and Stock Price. This means that with the increase of conditional conservatism, Stock Price increased. So $H_0$ is rejected and the second hypothesis as "there is a significant relationship between conditional conservatism and Stock Price" is accepted.

The Third Hypothesis Test

Table 3) the results of third hypothesis model

$$\frac{CFO_{it}}{NI_{it}} = \alpha_0 + \beta_1 * MTB_{it} + \beta_2 * SIZE_{it} + \beta_3 * LEV_{it} + \epsilon_{it}$$

<table>
<thead>
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<th>Variables</th>
<th>Coefficient</th>
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<th>Significant</th>
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</thead>
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<tr>
<td>Intercept</td>
<td>1.08**</td>
<td>11.88</td>
<td>0.00</td>
</tr>
<tr>
<td>$MTB_{it}$</td>
<td>-17.98**</td>
<td>-17.67</td>
<td>0.00</td>
</tr>
<tr>
<td>$SIZE_{it} \cdot D_{it} \cdot R_{i,t}$</td>
<td>1.50</td>
<td>0.07</td>
<td>0.00</td>
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<tr>
<td>$LEV_{it} \cdot D_{it} \cdot R_{i,t}$</td>
<td>0.06**</td>
<td>7.37</td>
<td>0.93</td>
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</table>

Fisher statistic (F) is equal to (193.88) that it was significant and the model shows significant. Considering the fact that the statistic Durbin-Watson is equal to 1.70 has been ignored by the
0.02 different from the range of optimal Durbin Watson for lack of autocorrelation, it can be concluded that the existence of autocorrelation in error terms model is rejected. Also, the adjusted coefficient of determination is equal to 52%, which means that about 52 percent of the changes for this dependent variable explained by the independent variables. A significant factor variable ratio of market value to book value ($\beta_1$) is equivalent to 17.98 at 1% is significant and implies an inverse relationship and a significant existence ratio of market value to book value (as a measure of unconditional conservatism) with variable quality profits. So we can expect that by increasing unconditional conservatism, earnings quality is reduced.
So H0 is rejected and the third hypothesis as "there is a significant relationship between unconditional conservatism and earnings quality" is accepted.

**The Fourth Hypothesis Test**

Table 4) the results of third hypothesis model

\[ P_{it} = \alpha_0 + \beta_1 * M/B_{it} + \beta_2 * SIZE_{it} + \beta_3 * LEV_{it} + \varepsilon_{it} \]

<table>
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<th>Variables</th>
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<tr>
<td>Intercept</td>
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<td>0.47</td>
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<tr>
<td>$M/B_{it}$</td>
<td>-7.71</td>
<td>22.16</td>
<td>0.00</td>
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<tr>
<td>$SIZE_{it} * D_{it} * R_{it}$</td>
<td>-22.89</td>
<td>-20.13</td>
<td>0.00</td>
</tr>
<tr>
<td>$LEV_{it} * D_{it} * R_{it}$</td>
<td>-3.25</td>
<td>-0.052</td>
<td>0.95</td>
</tr>
<tr>
<td>Adjusted coefficient of determination</td>
<td>0.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisher statistic (significant)</td>
<td>295.37(0.00)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F Limer statistics (significant)</td>
<td>0.18 (1.51)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hausman statistic (significant)</td>
<td>-----</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durbin Watson (D-W)</td>
<td>1.54</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fisher statistic (F) is equal to (295.37) that it was significant and the model shows significant. Considering the fact that the statistic Durbin-Watson is equal to 1.54 has been ignored by the 0.02 different from the range of optimal Durbin Watson for lack of autocorrelation, it can be concluded that the existence of autocorrelation in error terms model is rejected. Also, the adjusted coefficient of determination is equal to 62%, which means that about 62 percent of the changes for this dependent variable explained by the independent variables. A significant factor variable ratio of market value to book value ($\beta_1$) is equivalent to -7.71 at 1% is significant and implies an inverse relationship and a significant existence ratio of market value to book value (as a measure of unconditional conservatism) with variable Stock Price. So we can expect that by increasing unconditional conservatism, Stock Price is reduced. So H0 is rejected and the third hypothesis as "there is a significant relationship between unconditional conservatism and Stock Price" is accepted.
Conclusion

In this study, a decision based on low earnings quality, lead to unwanted transfer of wealth. For example, the excessive profits that will be an assessment of management performance, lead to accrued rights and benefits to be managed and in similar ways, inflated profits may hide the company's sudden bankruptcy and will lead to wrong authenticate the creditors. However it should be noted that conservatism as a qualitative characteristic can affect the quality of earnings and stock price and it's important in deciding to invest in financial statements review considered. Increase the conservatism of the events (unconditional) earnings quality is less (negative relationship between conservatism and unconditional earnings quality and stock price) and also to increase the conservatism of the events (conditional) by increasing the quality of earnings (positive relationship between conservatism with earnings quality and stock price) is associated.

In other words, doing conditional conservatism lead to information risk decreased and predictive power increased, and then the data is less than expected investment returns which will inevitably affect the evaluation and indirectly affect the price of securities. On the other hand, unconditional conservatism has been reduced due to the predictive power of data and information risk is high. As a result, the expected rate of return on investment increased and ultimately affects the price of securities and the effect of economic measures is conservative on pricing securities.
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