Effect of accounting Resources value on amount per share

Hamid Reza Ranjbar Jamalabadi[1] (corresponding author)

[1]Department of Accounting, Yazd Shahid Sadoughi University of Medical Sciences, Yazd, Iran.
[2]Department of accounting, Science and Research Branch, Islamic Azad University, Yazd, Iran.

Abstract: Discretionary and non-discretionary components of accruals information, including information that has been extracted from the financial statements and this information along with the stock prices of the major factors for achieving the goal analysis followed by investors. In this study, by using systematic elimination, the required data of 146 listed companies in Tehran Stock Exchange during the period 2007 to 2012 were reviewed. Also were used the modified Jones model to the calculation discretionary and non-discretionary accruals. The results of hypothesis testing on the combined data showed that there is significant and direct relationship between the proportion of non-discretionary accruals and stock prices. In addition, the results of hypothesis testing on the combined data showed no significant relationship between the proportion of discretionary accruals and stock prices.
[Hamid Reza, Ranjbar Jamalabadi. **Effect of accounting Resources value on amount per share.** *Academ Arena* 2015;7(8):24-28]. (ISSN 1553-992X). http://www.sciencepub.net/academia. 9

Keywords: accounting Resources, non-discretionary accruals, amount per share

Introduction

Investors are looking for opportunities to invest additional resources in the most efficient capital markets and one of the main factors that every investor in his decision to give a special attention is "stock price". The cash and accrual components of earnings can be used as tools to predict future benefits by investors that in this regard, the accrual component of earnings for manipulated can be benefit special interest. Moreover, separate accruals into discretionary and non-discretionary components could be provided more appropriate context for belter analysis of accruals and subsequent more earnings quality analysis. Investors to make optimal decisions at the purchase, possession or sale of shares in addition to earning and its components pay attention to the other information contained in the financial statements, which can be effective to the stock price and import them to their decisions models, information obtained through the analysis of financial ratios that are underlying the financial statements and can be considered very useful tools in the evaluation of existing and projected future state business.

Literature research

Pelk and Sapinza (2012) in their study who were seeking answers to the question whether the incorrect pricing of the stock market are affected investment decisions or not? They respond to the above questions were discretionary accruals as a proxy for the incorrect pricing of stock market. The results of this study indicate that discretionary accruals and capital expenditures are affected at future stock returns.

David at el (2012) in a study to answer this question whether cash flows and accruals of the company can be expanded on the stock market Was to investigate the relation between accruals, cash flows and the cumulative stock returns the results showed retained accruals are a positive predictive power of described above and cash flows are a negative predictor for the cumulative stock returns.

Ball and Brown in 2011 in his study as an empirical evaluation of accounting earning numbers have to investigate the relationship between changes in stock prices and earnings for the 261 companies listed on the New York Stock Exchange in the period 2004 to 2008. The researchers found that the reaction of the stock price occurs before the announcement of annual interest only about 10% of changes are happening in the month of earnings announcement concluded with the idea that prices should reflect the expected earnings are based.

Jones (2009) was the first steps to distinguish accruals to discretionary and non-discretionary, Then Difand and Jiambalow (2009), following Jones tries to satisfy the non-discretionary accruals based on changes in the level of sales of property and equipment. They said accruals are a distinct factor from associated efficiency gains.

Dichow (2008) in a study was paying to analyze the role of accruals in assessing the performance of companies in a short period of time and concluded that the accruals, better cash flow, which reflects the company's short-term performance. He also found that the earning accruals are the more cash that can reflect information about the stock returns. In addition, cash flow as a measure of evaluation, along with the earning accruals, can be meaningful accounting earning and the subsequent accrual of income to changes in cash resulting from the operational activities and investment and the financing of the company, is meaningful to communicate Return of the shares. Demiter et al (2009) in research paid to the

impact of accruals and cash flows of the related profits - in stock returns, to examine the impact of changes in earnings and cash flows associated with the stock returns over the period 1996 to 2006 in the capital market in Greece. The results indicate there is a positive explanatory power and higher earnings compared to cash flows associated with changes in stock returns. The results showed that investors evaluate companies with big are concerned earnings and cash flows as a measure, however, evaluate enterprises have opportunities with growing pay more attention to cash flow. Kiang at el (2010) in a study paid to predict the stock returns with using discretionary accruals. The results showed that the cumulative accruals and the stock returns have a significant positive association and this relationship is driven by discretionary accruals. Further analysis showed that the cumulative discretionary accruals unlike the cumulative normal accruals are less information about commercial condition and cash flows. Mehrani (2011), research on the relationship between profitability rates and he stock returns has been tested on the Tehran Stock Exchange. Time domain is consisted of a two-year period 2010 to 2011. All companies listed were classified into 70 different types, among them 19 activity due to more extensive volume selected other activity. Ratios examined in this study are include the return on equity, earning before tax, earning margin, asset efficiency, earning growth, sales growth and asset turnover

The research hypothesis

Hypothesis 1: between discretionary and non-discretionary accruals and stock prices of listed companies in Tehran Stock Exchange has a significant and positive impact.

Hypothesis 1-1: between discretionary accruals and stock prices has a significant positive impact.

hypothesis 1-2: between non-discretionary accruals and stock prices has a significant positive impact.

Population, sampling method and sample size

The statistics population of all firms listed in Tehran Stock Exchange, which from the beginning of 2006 until March of 2011 has been enabled at the exchange.

Sampling in this study has been a systematic knockout (screening).

Methods of data analysis

After collecting the required information from the financial statements, attachments notes and various applications, data focused in Excel database and have obtained the required data of research variables. Then, the data are entered Eviews software with using Dickey - Fuller, Haderi and Kao, Compatibility and co-integration s tests, variable is tested. Then, using F Limer and Hausman test, set data and assumptions of the classical model has been tested using appropriate statistical tests, Finally, the criteria has been used adjusted R and R2 for determining the power of explaining of regression equation, the F statistic for testing the significance of the regression line equation and the t-statistic for testing the significance of each of the regression coefficients and test the hypothesis.

Research variables

Dependent variable:

One of the variables needed to test the presented hypotheses as the dependent variable is the market price of the common stock. In order to the stock price, the market price of ordinary shares is the end of February each year, which can be accessed through the SEC.

Independent variables:

Discretionary accruals (DAC)

The batch of accruals are created because of the method of accounting, specializes optional, management decisions, judgments and estimates. In this study, discretionary accruals is obtained by using Jones modified model based on equation (3-3).

Non-discretionary accruals (NDAC)

Batch of accruals are in the company's business model and its operating environment and manage business units are not involved in the genesis of them and is created by carrying out business activities in the company (Hosseini, 2006) In this study, non-discretionary accruals is obtained by using Jones modified model based on equation (3-2) The research model

The used model in this study includes a regression model as follows

$P_{it} = \alpha_0 + \beta_1 DAC_{it} + \beta_2 NDAC_{it} + \mu_{it}$

P_{it}: Stock price of firm i at the end of each fiscal period t (the dependent variable).

E_{it}: Earnings per share of firm i in year t (the independent variable).

DAC_{it}: Discretionary accruals of firm i in year t (the independent variable).

NDACit:Non- discretionary accruals of firm i in year t (the independent variable).

0α: constant.

1β and 2β: Estimated regression coefficients of correlation.

itμ: error terms

Analysis of hypotheses

Hypothesis 1: between discretionary and non-discretionary accruals and stock prices of listed companies in Tehran Stock Exchange has a significant and positive impact

Hypothesis 1-1 between discretionary accruals and stock prices have a significant positive impact.

hypothesis 1-2: between non- discretionary accruals and stock prices have a significant positive impact

$P_{it} = \alpha_0 + \beta_1 DAC_{it} + \beta_2 NDAC_{it} + \mu_{it}$

Discretionary and non-discretionary accruals analysis

Discretionary and non-discretionary accruals is calculated from Jones modified model therefore the total items is determined by calculating the ratio of non-discretionary accruals and the discretionary accruals measure is obtained.

Table 2: Results of analysis data to calculate discretionary and non-discretionary accruals

p-value	The t-statistic	Standard error	Coefficient	Variables
0,000	9.889	0.005	0.051	C
0.000	4.472	0.014	0.064	(SALES- $\Delta REC)TA$
0.000	-6.885	0.014	0.100	PPE/TA
0.000	-5.242	0.028	-0.149	AR(1)
2.074	Dorbin-Watson test		26.062	F Fisher statistic
0.072	R 2		00.0	P-Value

According to the results of the data analysis are reflected in the table:

A) comparing the obtained value with the value calculated by Fisher's statistical f in the table according to the values obtained for p-Value of regression is equal to zero, the null hypothesis is rejected and the shows that all regression coefficients are not zero simultaneously.

B) B) comparing the obtained value of the t-statistic and its calculated value in the table with respect to the p-value obtained for each of the coefficients, the null hypothesis for the variables and PPE / TA is rejected, so between the independent variables with non-discretionary accruals can be found relationship.

C) comparing the statistics of the Dorbin - Watson earned its calculated value in the table, it was found that the model with autocorrelation is to eliminate the AR component of the model has been added to By comparing this with the computed value of the statistic, it was found that the autocorrelation in the table have been met.

D) - R2 obtained show that the independent variables, we are able to account for only 7% of the dependent variable relationship. So there is a very weak relationship between the independent variables and the dependent variable.

Pattern Analysis with using fixed

At the F- Limer test, the H_0 hypothesis of equal intercept (panel data) versus the opposite hypothesis H_1, the intercept anisotropy (using panel data) is placed. Therefore, we can write:

$$H_0 : \alpha_1 = \alpha_2 = \cdots = \alpha$$

In the first test, the probability of F-Limer statistic calculated and error 05/0 = α, the hypothesis H0 is accepted (05/0> 00/0 P =) and use panel data approach is not more appropriate.

Also, due to the use of panel data, we use the Hasman test to determine which of the fixed or random effects methods should be used.

Hasman test, the hypothesis of random effect against the hypothesis of fixed effects are used. In this study, according to the Hasman test and the probability of error 05/0 = α, will not be accepted hypothesis H_0 (05/0> 04/0P =) and using fixed effects method is more appropriate.

Table 4.4: Estimation results for the years 2006 to 2013 based on fixed methods.

$P_{it} = \alpha_0 + \beta_1 DAC_{it} + \beta_2 NDAC_{it} + \mu_{it}$				
Significant	T-statistics	Standard deviation	Coefficient	Variable
0.0000	7.863425	.0941032	7.399735	C
0.0323	2.144957	0,040875	.0178662	B1
0.0265	0.826434	0.030664	0.123561	B2
The coefficient of determination (R^2)	0.84	Dorbin-Watson test		1/79
The coefficient of determination R^2	0.84	test *F* Significant *F*		5.51 0.00
Statistics Limer F = 93/4		Prob F		0.00
Probability*0.05*		statistic *ψ7.71*		Hasman test

At the F-Limer test, the hypothesis H_0, equal intercept (panel data)are versus the opposite hypothesis H_1, the intercept anisotropy (using panel data).

Coefficient of determination, proper fit of the regression line based on a set of data is examined. The higher the value of this coefficient indicated that the independent variables have more power in explaining the behavior of the dependent variable.

The coefficient of determination, the results of the estimated regression model is 84/0 = R2. The estimated value of the coefficient of determination, is the fact that about 84% of the behavior of the dependent variable is explained by the independent variables, which is an indication of a relatively high correlation between the independent variables and the dependent variable that is. Dorbin- Watson statistic indicates the absence of autocorrelation in the model is the general results are as follows:

DACit: discretionary accruals of company i in year t on stock price represents a significant and positive impact.

NDACit: Non- discretionary accruals of company i in year t on stock price represents a significant and positive impact.

Overall results show the relationship between the independent variables and the dependent variable in the original model. Variables are significant and positive relationship between the stock price.

Conclusions

The main results of the hypothesis test:

According to the theoretical expression, investors can use to the analysis of the quality of earning from accruals quality measure to determine how much earning accounts accruals in addition, separate the rate and amount of discretionary and non-discretionary accruals to analysis of each component of accruals to achieve their goals. Hypothesis states that there are relationship between non- discretionary and discretionary accruals and stock prices.

The results of the first sub-hypothesis test:

As previously explained, however the manager of a company have more freedom to create discretionary accruals is more likely to affect the profits of the items (Management profit) as the expression used to 1-1 hypothesis that there is a relationship between discretionary accruals and stock prices.

The hypothesis was tested that the combined data:

The results obtained on synthetic data show that between discretionary accruals and stock prices, there is no significant relationship.

According to the results of the combined data seem to be in investors' decisions might not notice to discretionary accruals,it is not compatible with the theoretical.

The results of the test compound indicates that the stock price is not influenced by the level of discretionary accruals.

The second sub-hypothesis test results:

According to the theoretical discussion, much accruals is a sign of lower earning quality of company low quality of earning is as well as a decline in the stock price.

Non-discretionary accruals as well as an important part of accruals, this is no exception.

1-2 hypothesis states that the non-discretionary accruals and stock prices are related.

The hypothesis was tested that the combined data:

The results obtained from the combined data shows a statistically significant relationship between non-discretionary accruals and stock prices are involuntary. But since this is a direct relationship, so it is not compatible with the theory.

Combining the results of the test data shows that companies that have more non-discretionary accruals, their stock prices are higher.

Suggestion

suggestion based on research findings.

The results of the second research hypothesis show that there is a significant relationship between stock prices with selected financial ratios (excluding net income to net sales)

So for investors, analysts and all capital market participants recommended are more attention to the financial ratios and incorporate them into their decision models.

2 - The results of the second research hypothesis suggests that the there is no significant relationship between discretionary accruals and stock prices.

Suggestions for future research

This issue deserves further investigation with regard to other aspects of the issue by researchers. What is being proposed for future research include the following:

1- Use Income approach to calculate accruals and compare its results with the results of this study

2 - Use other discretionary and non-discretionary components of accruals resolution models such as Haley, Di Angelo and Jones model and compare its results with the results of this study

3 - The use of other financial ratios or increased financial ratios and comparing its results with the results of this study.

Reference

1. Ahmadi, S. A. (2007) The role of accruals and cash flows in the valuation basis of the Master Thesis Accounting, Bahonar University.
2. Akbari, F. R. (2008), Financial Statement Analysis, Journal number 129, published by Corporate Audit, Twelfth Edition.
3. Beaver, W., R, and Wright. W, (2011). "The association between unsystematic security returns and the magnitude of the earnings forecast error'', Journal of Accounting Research. 17(autumn). 316-340.
4. Barton, J. J., and. Simko P. J. 2011. The balance sheet as an earnings management constraint. The Accounting Review (Supplement):1-27.
5. Chan, K., L. Chan, N. Jegadeesh, and Lakonishok. J, (2010). "Earnings quality and stock returns'', Journal of business, forthcoming.
6. Chaney, paul K., Jeter, Dedra C., AND Craig L, M. (2010) ''The Use of Accruals in Income Smoothing Accounting. A Permanent Earnings Hypothesis. " Advances quantitative Analysis of Finance and
7. Dichow, P. and I. Dichev,(2002). ''The quality of accruals and earnings:the role of accrual estimation errors''. The accounting review, 77,35-59.
8. Imani, M. (2006), providing a model for the relation between earnings quality and efficiency of the shares of the listed companies in Tehran Stock Exchange, Accounting Doctoral dissertation, University Tarbiat Modares.
9. Torabi, Mohammad Hossein (1387), examining the relationship between economic value added, EVA, earnings per share, EPS and operating cash flow, OCF, with an annual output shares of the listed companies in Tehran Stock Exchange, completed a master degree in accounting.
10. Sadjadi, H. (1998), factors associated with unexpected earnings and its relation to stock prices, Journal of Accounting and Auditing Review, number 24 and 25, pp. 60-34.

8/16/2015