

Investigate the impact of profit management on market reaction to re-issue financial statements

Mehrdad Ghanbari^{1*}, Masoud davoudi²

¹ Department of accounting , Kermanshah branch , Islamic Azad University , Kermanshah, Iran, ² Department of accounting , Ilam branch , Islamic Azad University , Ilam, Iran.

Correspondence: Mehrdad Ghanbari, Department of accounting, Kermanshah branch, Islamic Azad University, Kermanshah, Iran

ABSTRACT

Send the expected future profits, the expected growth rate of appeals, uncertainty management, and competency and honesty to the views and perceptions about the quality of the benefit of influencing factors such as the reduction of the market value of the company. The aim of this research reviews the impact of profit management on market reaction to the announcement of financial statements for presentation again. The statistical research community accepted company 142 TSE ranged up to 2011- 2016. In order to analyze the data from the least squares regression was used. The results showed that the company's value on the benefit management as criteria for market reaction to provide financial statements again after the presentation of the main account and the main impact of the non-CS is positive and significant.

Keywords: profits management, market reaction, the value of the company.

Introduction

The main justification for the use of managers changes the past, reflecting better operating environment changes and the company's investment. This is justified by accounting standards compatibility because the existence of past changes is authorized [1]. Based on the accounting standard no. 6 Iran, when changing the accounting procedures (if necessary) comparative figures based on the new procedures before the officer should offer again. Also, in some cases, it may be for one or more of the published financial period before that with its mistakes included optimal image is corrupted and therefore more reliance for reduces financial [2].

Correction of such mistakes must also be provided through the financial year, or if you reset the figures in previous years. In the case of the financial relationship with re provided for stock

quotes and market research for investment and investors that their results suggest that the negative stock market returns are generally the result of providing financial statements again [3]. Richardson otona (2002) have found that offering a financial basis, again with similar motivated management for false reporting. These results can represent it that investors may profit after financial matters again provided with the ability to consider less reliance [4].

Provide the financial basis for capital market again contains new information. From the perspective of investors, provide financial news re the face just represent performance problems over the past period but somehow predict future problems for the company and its management are also considered stripping and make investors toward credibility and competence management and reduce the quality of the reported profit. In fact, the implementation of the financial basis for implied again, and not be based on symptoms for the past period of financial and quality down them to the capital market and the consequent expectations of investors associated with future cash flows and expected rate of return They regard true change [5].

On the other hand accepted accounting standards in different countries, which allows managers to a wide range of powers to choose different methods of accounting, to calculate the profit, to have. Of course, it is possible that the managers of all the powers of the company they used for the realization of the objectives. In fact, the management of commercial enterprises

Access this article online

Website: www.japer.in

E-ISSN: 2249-3379

How to cite this article: Mehrdad Ghanbari, Masoud davoudi. Investigate the impact of profit management on market reaction to re-issue financial statements. J Adv Pharm Edu Res 2018;8(S2):160-162.

Source of Support: Nil, Conflict of Interest: None declared.

This is an open access journal, and articles are distributed under the terms of the Creative Commons Attribution-Non Commercial-ShareAlike 4.0 License, which allows others to remix, tweak, and build upon the work non-commercially, as long as appropriate credit is given and the new creations are licensed under the identical terms.

can use this flexible methods allowed, profit for your goals of management ^[6]. The purpose of management, show a dynamic and stable in terms of investors and the capital market. Indeed, most investors and company managers believe that they have an appropriate process regarding profitability and profit they suffered major changes cannot be compared to similar companies, greater value and reliability prediction and comparison are more ^[7]. The management of the benefit in the long run can be negative consequences have also followed the principle of accounting information quality and the freedom that it would cause come down investors' confidence. In cases where the company is facing such problems, take action to provide financial statements, again, that this is also a benefit in the case of management applies. So the main question in this research is to manage what the impact on profits of market reaction to provide the financial face again?

Literature

All members of the community in a way influenced by financial reporting; because the flow of asset allocation based on the financial information provided through financial reporting. What if the only source of financial information, financial companies, but not the final product for the financial accounting and reporting systems enterprise outsourcing companies that once measurement of the public. Iranian accounting standards provides that companies must face the financial figures for a comparison with the figures this year offering and disclosure ^[1]. On this basis the figures a year ago this year, once again by the auditor of the company and the case review and classification and if there is nothing wrong with the importance in the nature and method of classification and also sums of the previous year, you must renew this year are provided. Thus, the renewal of the offer could mean the existence of a defect or bug to be interpreted that this year has been discovered, of course, the condition of being caused by a change in accounting procedures. The studies also show that a high percentage of renewal in Iran, because of the accounting errors has been corrected ^[2].

Send the expected future profits, the expected growth rate of appeals, uncertainty management, and competency and honesty to the views and perceptions about the quality of the benefit of influencing factors such as the reduction of the market value of the company. Renewing the offer reduces the expected future profits and an increase in the cost of capital of the company. In other words we can say the renewal offer is through reducing cash flows and expected future profits and increased through use discounting rates by investors reduces the market value of the company ^[3]. Wide streams of research, there are sources that show the renewal offer American companies face certain financial relationship with companies that have the desired reduction in all circumstances according to. So it seems to be doing a study on the effect of profit management field as one of the powers of the directors to indicate the situation of the company which can be positive and negative influences have on

presentation again to look for and the value of the company is important.

Davodi and Khodamoradi (2016) in profits as the impact of research management provide companies with the financial audit on the quality of the case again. Statistical research community included 168 enterprises 1389-1393 during the year. Experimental evidence obtained from tests of assumptions is that providing a direct financial relationship for again, and have significant audit quality and the high level of importance the renewal provision for audit quality, leading to increased funding for grants. More reviews also show significant profits and reverse the effect of management on the quality of audit companies active on the Tehran stock exchange and with the increase in the rate of profit management applied in the case of the audit quality of these companies will be eased but when the effect of management on the quality of profit Audit at the level of the companies rated provide renewal funding for the review results in a 95% confidence level the significant relationship between profit and quality management audit.

Mohammadi and Sadri (2015) study entitled determination of the relationship between the renewal of the financial statements provided with the percentage share of profit to the companies accepted in the Tehran stock exchange. The aim of the present study was to determine the relationship between the renewal of the financial statements provided with the percentage share of companies and in the it, information from a sample of 119 companies during the years 2008 until 2014. The findings of this research suggests that it is between the renewed presentation of financial statements and profit the companies renew direct relationship exists, the provider type of the industry on the relationship between the renewal of the presentation of financial statements and profit the companies getting the impact of provider.

Mohabat and Mohabat (2014) of research as the relationship between the quality and the presentation of financial statements revised profit in accepted directories on the Tehran stock exchange ^[8]. The community was analyzed in this study, the accepted companies on the Tehran stock exchange in the year 2006-2011 time interval. The results showed that the first hypothesis on the existence of the relationship between children's offer for financial and quality of the company's profit has been confirmed. The second hypothesis on the existence of the relationship between children's offer for financial company profits and quality according to the size of the agent has been confirmed. The third hypothesis on the existence of the relationship between China financial and provides dynamic quality for the benefit of the company with regard to the supply of financial agent has confirmed. And finally the fourth hypothesis based on the existence of the relationship between children's offer for financial and quality company profits due to the financial leverage factor has been confirmed.

Wilson (2008) in the United States, a decrease in the content of the information provided, after the test, and again received fairly profits after the offering, has fewer information content. For the company that fitted due to the correction of the mistake

arises from the identification of revenue provide have again, reducing the information content in profit, more significant^[9]. Liu and Wysocki (2007) with the title of research provide a financial impact on the change of form again for Auditors and senior management. The statistical sample this research include corporate 569 which was after the presentation again attempted to change its auditor. The results indicated that the notice provide a significant basis to enhance the possibility of changing the appointment and dismissal of Auditors can be fitted^[10].

Hribar & Jenkins (2004) in America on the financial impact of the offer again if the capital cost estimates were found in research that provide the financial basis again by reducing investors' confidence toward the credibility and competence of management reduces the expected future profits and increase the rate of return Expected, investors and ultimately increases the cost of capital of the company^[11].

Methodology

This research, in terms of the kind of descriptive, correlation, and this because of the financial information relating to the case for prior years is used, the kind of history (after the event). In this study, the average coefficients of the regression model fitted multivariate fama and French for before and after the offer again if compared to the impact of the management of financial profit on market reaction to provide financial statements, again due to their significant level, specify.

Previous research findings and theoretical information and data needed for the study was collected from secondary sources is accurate. For gathering information on the history and literature of the subject of study and research of formula variables extracted from a library method is used. Statistical data related to the hypothesis of the study was carried out using the method of organization of documents for financial and mining companies according to the hypothesis of the study, the data of the variables is calculated from the obtained information. According to the information and data have been collected from auditing documents for financial companies will be extracted and converted some of them used the formula that is used in the scientific community, as a result, can be measured by that claim has credibility. Due to the fact that in the calculation of the indices of the case study of a particular formula that can be used as an instrument of world standard are considered according to the documents available in the literature and the theoretical basis of the measured traits specific to be considered, therefore, the validity of this viewpoint may be measured by Make sure.

The statistical community and the research timeline

Long range research, taking into consideration the period required for the estimation of the beginning of the year 2011, loaders, till the end of the year 2016 for 6 years can be fitted according to the statistical territory of the community, a place

of research includes the companies accepted on the Tehran stock exchange. The statistical sampling method to knock, taking into consideration the time zone based on the following conditions, the research of the above statistical society after the restrictions above the number of the company's 225. So it is with the use of the formula sampling Cochran (1997), which is below the minimum number of samples to test hypotheses, data, obtained the company 142:

$$n = \frac{Nz^2pq}{Nd^2 + z^2pq} = \frac{225(1.96)^2 \times 0.5 \times 0.5}{225(0.05)^2 + (1.96)^2 \times 0.5 \times 0.5} = 141.893 \approx 142$$

model and the method of measuring the variables

In this study, the variable benefit management as independent variable and dependent variable the value of the company as has been considered. As well as the size of the company and the financial leverage as control variable has been considered. In this investigation for hypothesis testing of the following two modes model before and after the offering will be used for funding again:

$$Q_{it} = \beta_0 + \beta_1 DAC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

a) The independent variable:

Profit management: in this study, for the calculation of profit management of profit management model based on commitment items Kutary (2005) will be used as follows:

$$\frac{TA_{i,t}}{A_{i,t-1}} = \alpha_0 \left(\frac{1}{A_{i,t-1}} \right) + \alpha_1 \left(\frac{(\Delta CA_{i,t} - \Delta CCR_{i,t})}{A_{i,t-1}} \right) + \alpha_2 \left(\frac{PPE_{i,t}}{A_{i,t-1}} \right) + \alpha_3 (ROA_{i,t})$$

b) The dependent variable:

Provide the financial basis again: in this study, in order to check the reaction of the market to provide the financial basis of the criteria again the value of the company at the time before and after the presentation of the case again, the property will be used.

In order to calculate the value of participating in this study, the criteria Q Tobin will be used. This ratio is the result of the Division of assets on the market value of the cost of replacement of all they achieved and will be calculated as follows:

$$Q = \frac{Ma + Bd}{Ba}$$

C) Control variables:

Company size: the size of the company by its major indices of the value of the assets of the company, the amount of sales, number of employees of the company, the market value of shares of the company and. .. Store size available in the research of the natural logarithm of the rate of annual sales of the company in the form of audited financial is available is calculated.

Financial leverage: ratio of the total funds that of the location of the debt are calculated, and the provision of total debt divided by total assets in hand. This ratio shows that how much of the assets of the company through debt and borrowing and what the rate of supply of capital.

Method of analysis

Research of data analysis to study the documents extracted image will be set to General information. Then all data using Excel software by computer and then in Eviews software will be examined. Descriptive analysis of statistical indicators in Central and dispersion will be used. Descriptive statistics of the variables research includes average, minimum, maximum, median and standard deviation are used to describe data. After the descriptive statistics, in order to test the hypothesis of statistical inference will be used. In the first stage of being a normal distribution for the variables of the statistics for Jarque-Bra, to test the consistency of the variance of the likelihood ratio test, in order to detect the data type of the Chow test and Hausman and finally to verify at least squares regression of hypothesis test will be used.

The findings of the research

When a mass of little information to be collected by research, first organize and summarize them in a way that significantly to understand and communicate, is essential. Descriptive statistics of the same technique applied to the order. Often the most useful and at the same time the first step in organizing data, sort the data based on a logical criterion and then extracting the central index and dispersion. In a wrap with proper use of descriptive statistics can be precisely the characteristics of a bunch of information. Descriptive statistics is always to determine and express the characteristics of research information to work. Descriptive statistics of the data at the beginning of the study of the calculation can be fitted. Table (1) descriptive statistics shows the model variables that contain information related to the mean, standard deviation, maximum and minimum.

Table 1-analysis and descriptive statistics

| | N | DAC | Q-Tobin _{t-1} | Q-Tobin _t | Lev | Size |
|----------------|-----|------|------------------------|----------------------|------|-------|
| Mean | 852 | .493 | .619 | .429 | .354 | 13.32 |
| Std. Deviation | 852 | .387 | .371 | .287 | .352 | .379 |
| Minimum | 852 | .733 | .813 | .687 | .565 | 16.38 |
| Maximum | 852 | .261 | .379 | .109 | .067 | 9.31 |

The average profit management for the sample obtained is almost 0.493 considering that the minimum and maximum for this variable in the order of 0.261 0.733, and it can be said the company's profit management case study than high. Standard deviation for this variable 0.387.

The mean value for the sample company before providing financial statements again equal to the average, and this is

achieved 0.619 for companies, after the presentation of financial statements is equivalent to 0.429 again, so it can be said that though companies for the next medium of presentation of financial statements.

At first, the normal distribution should be whether the dependent variable is the order of the reviews Jarque-Bra statistics – has been used for. Then, in order to check the variance ratio test of consistency frustrated likelihood has been used and then in order to choose the proper pattern of the Chow test and test Hausman test has been used.

The normal test of being dependent variable

One of the assumptions of regression model and fitting test parameter corresponding to the normal distribution, with it being the experimental confirmation of the values of the dependent variable. In the study of this subject through the statistics Jarque-Bra studied. Zero assumption and assume front in this test is as follows:

H₀: Data distribution is normal.

H₁: Data distribution is not normal

If the level of significance of the test statistic is greater than 5% hypothesis H₀ of normal distribution based on the variable being fitted to be accepted. In the table (2) test results for dependent variable (The value of the company):

Table 2: Normal test results being dependent variables

| Jarque-Bra test | | | |
|-----------------|-----------|-----------|--------------|
| Prob. | d.f. | Statistic | Effects Test |
| 0.71912 | (850,126) | 0.62911 | Jarque-Bra |

Due to the significant levels of test statistics for the variable the value of the company, more than 5%, so the hypothesis H₀ of normal distribution based on being this variable in the 95% confidence level fitted and accepted means that variables change in the value of the company from the normal distribution.

The test of consistency frustrated the variance

With regard to the important impact of the variance of the estimate based on consistency, unfinished, SD and statistical inference, it is necessary to address before any estimate of the disappointed or a lack of consistency of the variance. In the table (3) the results of the review disappointed variance consistency models using the LM test.

Table 3: test results of infinite variance consistency

| Correlation LM test | | | |
|---------------------|-----------|-----------|-----------------|
| Prob. | d.f. | Statistic | Effects Test |
| 0.30903 | (850,126) | 0.09181 | Cross-section F |

In accordance with the table data (3) significant levels of test statistic is the ratio of the desired error level (5%) So the hypothesis H₀ disappointed based on the lack of consistency of the variance can be accepted, resulting in a 95% confidence

level in the regression model lacked the consistency of the variance is infinite

Select the appropriate pattern test

In order to choose one of the methods given in or data grew up the compilation of statistics used by Chow test. In other words, using the width of the Chow test determines that a separate source for each of the companies put in place there. If you are in between the observations, lack of balance or individual differences exist, and grew up in the data otherwise data fusion method is used. Because the data only on the time of accumulation and the difference between these terms. Therefore, in order to use the Chow test. If after the test Chow test, zero hypothesis is rejected, the question here is can be in the form of relationships which one of the works fixed or random works. Hausman test this issue. The hypothesis of zero) random works) in this test method, it means that the communication between the component and the relevant offset width disturbing explanatory variables exist and are independent from each other. While the opposite hypothesis (the fixed method works) it means that between the desired and the variable component of the disturbing explanation there is solidarity. So in the event of rejection of the hypothesis of zero of the fixed method works in otherwise random works method is used. Results related to these two tests in tables (4 and 5) are fitted.

Table 4: Chow test results

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section and period fixed effects

| Prob. | d.f. | Statistic | Effects Test |
|---------|-----------|-----------|--------------------------|
| 0.00000 | (850,126) | 19.26171 | Cross-section F |
| 0.00000 | 126 | 18.43571 | Cross-section Chi-square |

By taking the table (4), obtained a significant level of less than 5% of the F test is, so the assumption of zero was rejected and accepted the Panel data methods. So to choose the method of fixed effects and random effects or test should be done Hausman test.

Table 5: Hausman test results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

| Prob. | Chi-Sq. d.f. | Chi-Sq. Statistic | Test Summary |
|--------|--------------|-------------------|----------------------|
| 0.0000 | 4 | 17.26181 | Cross-section random |

Due to the significant level of less than 5% of Hausman test is the result of fixed effects method for hypothesis testing, fitted accepted.

Hypothesis testing

In this hypothesis the management profit as independent variable and dependent variable the value of the company as has been brought up, as well as the variable size of the company as

well as control variables. The overall model of this hypothesis is as follows:

$$Q_{it} = \beta_0 + \beta_1 DAC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \varepsilon_{it} \tag{1}$$

Considering that in order to measure the value of the company of the two models is used, test this hypothesis based on both models.

Table 6: The first model based on hypothesis testing

| Prob. | t-Statistic | Std. Error | Coefficient | Variable |
|--------|-------------|------------|-------------|----------|
| 0.0000 | 16.197 | 1.615 | .9150 | C |
| 0.0000 | 12.9152 | 0.91832 | 0.7192 | DAC |
| 0.0000 | 10.9123 | 1.0031 | 0.6192 | Size |
| 0.0000 | -8.546 | 0.543 | -0.342 | Lev |

Effects Specification

Cross-section fixed (dummy variables)

Period fixed (dummy variables)

| | | | |
|----------|-----------------------|-----------|--------------------|
| -0.31581 | Mean dependent var | 0.64832 | R-squared |
| 2.40673 | S.D. dependent var | 0.63923 | Adjusted R-squared |
| 1.27095 | Akaike info criterion | 0.45209 | S.E. of regression |
| 1.40123 | Schwarz criterion | 0.39806 | Sum squared resid |
| 2.04781 | Hannan-Quinn criter. | -87.4036 | Log likelihood |
| 2.09152 | Durbin-Watson stat | 1621.3612 | F-statistic |
| | | 0.00000 | Prob(F-statistic) |

The results of table 6 shows that, according to statistics obtained significant levels of F which is equal to 0.000 1621.3612 and can be found with 95 percent said that the relationship between the independent variables and the dependent variable control (corporate value) is significant. Using the camera is achieved between 2.09 Watson 1.5 and 2.5, and reflects a lack of correlation errors. Correlation coefficient 0.64 is obtained that shows 64% of the dependent variable changes by three variable profit management, the size of the company and the financial leverage to the contemporary. Significant levels of beta coefficient for the variable management and profit respectively equal to 0.000 and 0.719, which represents a significant and positive relationship between the management of profit and the value of the company before providing the financial basis again

Table 7: Test the hypothesis based on the model II

| Prob. | t-Statistic | Std. Error | Coefficient | Variable |
|--------|-------------|------------|-------------|----------|
| 0.0000 | 29.1972 | 1.0844 | 1.8193 | C |
| 0.0000 | -10.6193 | 0.793 | -0.6912 | DAC |
| 0.0000 | 11.3164 | 1.0212 | 0.7192 | Size |
| 0.0000 | -6.476 | 0.554 | -0.209 | Lev |

Effects Specification

Cross-section fixed (dummy variables)

Period fixed (dummy variables)

| | | | |
|----------|-----------------------|----------|--------------------|
| -0.31581 | Mean dependent var | 0.63242 | R-squared |
| 0.60271 | S.D. dependent var | 0.58765 | Adjusted R-squared |
| 2.1987 | Akaike info criterion | 0.26780 | S.E. of regression |
| 1.33891 | Schwarz criterion | 0.15341 | Sum squared resid |
| 2.15642 | Hannan-Quinn criter. | -48.5031 | Log likelihood |

| | | | |
|---------|--------------------|-----------|-------------------|
| 2.01012 | Durbin-Watson stat | 1524.2231 | F-statistic |
| | | 0.00000 | Prob(F-statistic) |

The results of table 7 shows that according to the statistics obtained significant levels of F which is equal to 0.000, 1524.2231 and can be found with 95 percent said that the relationship between the independent variables and the dependent variable control (the value of the company after the offering again financial statements) meaningful. Using the camera is achieved between 2.01 Watson 1.5 and 2.5, and reflects a lack of correlation errors. Correlation coefficient 0.63 is obtained that shows 63 per cent of the value of the company by management changes, the size of the company and the financial leverage to the contemporary. Significant levels of beta coefficient for the variable and the management to arrange equal to 0.000 and 0.691-that represents a negative relationship between management and the benefit and value of companies after the financial basis is again offering.

Conclusions

In General, it is recommended that investors, credit providers and other suppliers use financial offers carefully, to again analyze the possible negative reactions and reasons for the market to provide the interpretation again. A negative value of the response of companies to provide notification, control on this claim, which is non-cumulative yields the ordinary notification after the offering, In other words, for financial revision provided leads to a reduction in the value of companies.

Relative importance of profit management in determining the market value of the company, the loss of motivation in ten that strengthening the work of the hands of the company's market value increased, profits. In fact, the increase in the market value of the future expected loss to depend on. Loss of ten companies for increasing its market value more than the revenue actually showed up, and the company that attempted to provide effective financial reform for its source are a significant proportion of income to generally higher loss. Therefore, in the present study, only the company that most important reason for China's financial reform, provided they make a mistake resulting from recognition of income. The results showed that the negative impact on the value of the benefit management companies after the financial statements are presented again and makes the company's reduced value. This is the result of revenue losses and correction resources after the presentation of the financial statements again in the management of the benefit is ignored.

References

1. Davodi Zohre, Khodamoradi Mohamad. (2016) The impact on profits of companies with management providing financial audit on the quality of the face again. The 7th International Conference on accounting and management and entrepreneurship and open innovation at the 4th Conference, Tehran, Iran (Persian)
2. Mohammadi Mohammad, Sadri Parvin. (2015). Determine the relationship between the renewal offer for donations with the percentage share of profit of companies accepted on the Tehran stock exchange. The first International Conference on accounting and management in the third Millennium (Persian)
3. Palmrose, Z., Richardson, V., & Scholz, S. (2004). "Determinants of market reactions to restatement announcements". *Journal of Accounting and Economics*, 37, 59–89.
4. Kravet, T. and Shevlin, T. (2010) "Accounting restatements and information risk". *Review of Accounting Studies* 15 (2), 264-294.
5. Mikko Westerholm (2011), "On the pricing effect of earning quality, Department of Accounting", Accounting masters thesis, Alto University, School of Economics.
6. Mindak Mary P., Pradyot K. Sen, Jens Stephan, (2016) "Beating threshold targets with earnings management", *Review of Accounting and Finance*, Vol. 15 Issue: 2, pp.198-221, <https://doi.org/10.1108/RAF-04-2015-0057>
7. Abdi Sohrab, Sohrabi Ebrahim. (2016). An overview of the basics of management. 4th International Conference on applied research in management and accounting (Persian)
8. Mohabat Inaz, Mohabat Ifar. (2014). The relationship between the renewal offer for quality and profit in the company's accepted at the Tehran stock exchange. National Conference on new approaches in business management (Persian)
9. Wilson, W.M (2008), "An empirical Analysis of the Decline in the information content of earning following Restatements", the *Accounting Review*.
10. Liu, M. and Wysocki, P. (2007) "Cross-sectional determinants of information quality proxies and cost of capital measures". Working paper, Pennsylvania State University.
11. Hribar, P., & Jenkins, N. (2004). "The effect of accounting restatements on earnings revisions and the estimated cost of capital". *Review of Accounting Studies*, 9, 337–356.