The Study of Relationship Managerial Ability and Earning Quality Evidence From Tehran Stock Exchange

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ABSTRACT

The aim of this research is to study the relationship between managerial ability and the earning quality. The final sample organized of 99 companies between years 2006 and 2011 selected by systematic omission method. The orientation of the present research is "functional" objectively and "descriptive" administratively. Using the "library" method the needed data was extracted. excel, spss (20) software was used to test hypothesis and multi-variable regression. Demerjin et al (2012) model to measure of managerial ability and Jones adjustment model to measure of earning quality. Research findings show that managerial ability is positively associated with earning quality. Upon result both presence and not presence control variable firm size, financial leverage, profitability, investment opportunity.

Keywords: Managerial Ability, Earning Quality, Discretionary Accruals, Non-Discretionary Accruals

1. Introduction

Due to the fact that such conflict of interest between producers and investors use to estimate the components of the calculation of profit and loss, using various methods accepted accounting principles and issues such as smoothing and earnings management, Used as a criterion to decide if profits threatened that it would need to examine earnings quality compounds. Inclination and orientation investors to less risk and greater efficiency, which will lead to a particular industry. Given the changes that have occurred in today's world financial crisis has created countries, especially developing countries, which are facing numerous threats. To solve its economic problems requires finding a suitable solution for efficient use of their available capital. In this regard, it seems appropriate to develop solutions using enterprise information is accurate and reliable. Investment in corporate stock ownership diversity has led to an increasing trend in inequality information will increase ownership diversity. Since the management is able to meet all the needs of users of financial statements is not, This problem led to higher grade levels based on the financial information of the companies’ output is, So give importance to the quality and benefits of each type of decision-making is important.

2. Literature Review

One of the staples system of accounting, the profit and loss. The financial statement containing financial key element is the net profit And the expected net profit for the financial period shows an economic and unit One of the items that will be of interest to a wide range of users of financial statements. The first part of the above definition of the concept of preservation of capital and the second part is based on the concept of profit maximization. Accounting for income measurement and detailed rules applied to its proximity to the economic concepts have received little attention. One of the main targets of the view that the most important goal is for all users of financial reports. Here the distinction between investment and profit (resource flows) as part of the accounting process is described (shabahang, 2002).

3. Research History

3-1. Domestic Evidence
Khajavy and Nazemy (2005) to evaluate the association between earnings quality and stock returns have emphasized the role of accruals And concluded that the average stock return is not affected by accrual accounting and its related components. 

Noravesh and et al. (2006) The quality of accruals and earnings, with emphasis on the role of accruals estimation error are studied. The results show a high level of accruals to reduce earnings quality. Therefore, further accruals quality means less and less sustainable profit is.

Izadinia and nazarzade (2009) to provide appropriate metrics to measure the quality of earnings, and its relationship with stock returns examined. They considered the ten criteria for the quality of earnings and profits based on the quality of three categories: high, medium and low category were Their results demonstrated that real stock returns and earnings quality at high, medium and low are related.

Noravesh and majidy (2010) the study examines the relationship between earnings quality and cost of capital Companies listed on the Tehran Stock Exchange are paid. The results indicate that There is an inverse relationship between earnings quality and cost of capital.

3-2. International Evidence

Dichev,I Dichev (2002) in a study entitled achieved this important relationship accruals and earnings quality The quality of accruals and earnings by increasing the prediction error is reduced by the amount of accruals. Richardson,et al. (2003) The investigation showed that the relationship between earnings quality and short-term sales Accruals that are less dependent on the stability of the resulting profits are lower.

Bart Barth,et al. (2005) Estimated using the financial statements, profit Mydhdv affect actual performance results may lead to different business units will benefit. Earnings Quality rating helps users of financial statements with respect to current profits to judge and to predict the future.

Francis et al. (2007) in a study entitled, pricing models and its impact on earnings quality concluded The positive relationship between profitability and quality of pricing patterns are profitable.

4. Methodology

With regard to the question of the purpose of the research, the research orientation of the target application and the implementation method is described. The research population consisted of listed companies in Tehran Stock Exchange in 2006 until the year 2011 is the time domain. The population of this study consisted of all companies listed on the Tehran Stock Exchange. In this study, sampling methods, purposive sampling (systematic elimination method) is used, In this study population, all companies that qualify, have been selected and the others have been removed:

1-2007 years, from 2011 in stock be enabled.
2 - 2006 years before it is listed.
3 - The fiscal year end is March 29.
4 - not part of investment firms and financial intermediation.
5 - the information you need is available to them.

After applying the provisions of 99 companies were selected as samples.

Data were collected using software Tadbir Pardaz and rah avard novin, Development and Islamic Studies Stock Exchange And the Stock Exchange has been done. Also prepare the necessary variables For use in models to test the hypotheses, a spreadsheet application (Excel) is used. The information collected on what pages created in the software was compiled Variables and calculations necessary to achieve the research was conducted. After calculating the parameters for the models used in this study These variables were combined in a single business pages electronically to the soft ware used in the final analysis be transferred. This study analyzes the software spss20.

4-1. Research variables include:
4-1-1. Dependent variable:

Earnings Quality: In this study, the modified Jones model is calculated.

Earnings Quality Assessment Model:

\[ NDA_{it} = \alpha_1 \left( \frac{1}{A_{it-1}} \right) + \alpha_2 \left( \frac{\Delta REV - \Delta REC}{A_{it-1}} \right) + \left( \frac{PPE_{it}}{A_{it-1}} \right) \]

(REC): Represents accounts receivable
(REV): Total revenue (sales)
(PPE): Property, machinery and equipment, gross
(A): Total assets
(NDA): Non-discretionary accruals

4-1-2. Independent variable:

Managerial Ability: The model Dmrjyn et al (2012) will be calculated.

The model presented by Dmrjyn et al is as follows:

\[
\max_v 0 = \frac{\text{Sales}}{v \text{CoGs} + v \text{SG& A} + v \text{PPE} + v \text{R&D} + v \text{Goodwill} + v \text{OtherIntan}}
\]

(Max v Θ): Maximum output from inputs

(v): The entries represent (assets) Inc

(GOGS): Cost of goods sold

(SG&A): Selling, administrative and general expenses

(PPE): Net assets, machinery equipment

(R&D): The net cost of research

(Goodwill): Goodwill purchased by the Company

(OtherIntan): Other purchased intangible assets and assets such as patents, patent..

(Sales): Bestsellers

4-1-3. Control variables:

Company size: The natural Azlgarytm beginning total assets is obtained.
Financial leverage: total debt divided by total assets, end of this range is achieved.
Profitability: this variable by dividing earnings before interest and taxes over total assets is obtained.
Investment opportunities: that the market value of common stock divided by the book value of common stock is calculated.

4-2. Hypothesis Research:

Between earnings quality and Managerial Ability there is a significant positive relationship.
4-3. Findings resulting from testing hypotheses:

This study is a hypothesis and to test the hypothesis of multivariate linear regression is used. The assumption of statistical hypotheses (H1) and the opposite assumption (H0) is as follows:

H₀ = Between earnings quality and Managerial Ability there is not a significant positive relationship.

H₁ = Between earnings quality and Managerial Ability there is a significant positive relationship.

Normality test errors

One of the assumptions of linear regression, normal distribution of errors. To investigate the normal distribution of errors, the graph is plotted:

![Histogram](Image)

Figure 1: regression error distribution hypothesis

According to the graph of the normal distribution with mean given Very small (close to zero) and a standard deviation of errors is close to one, It is concluded that the error distribution is approximately normal The regression can be used.

<table>
<thead>
<tr>
<th>Table 1: Summary of regression models</th>
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<td>R</td>
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<td>.396</td>
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</table>

The results in Table 1 The coefficient of determination of the independent variables and control variables earnings quality (modified Jones model) to 0.39 And the adjusted coefficient of determination equal to 0.39. If the camera parameters - Watson acceptable range 1.5 to 2.5 is The lack of correlation between errors is acceptable. According to statistics, the Watson camera 1.96, So we can say that the lack of correlation between errors is acceptable.

<table>
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<th>Table 2: ANOVA results</th>
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<tr>
<td>Sum of squar</td>
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<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>total</td>
</tr>
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</table>
The results in Table (2) And given that the significant F test error F for a confidence level of 0.95 is less than 0.05 So we can say that the use of regression models is allowed.

![Image]

**Table 3 : Coefficients**

<table>
<thead>
<tr>
<th>MODEL</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>)Constant(</td>
<td>-1.090</td>
<td>.111</td>
<td>-</td>
<td>-9.802</td>
</tr>
<tr>
<td>M</td>
<td>.926</td>
<td>.052</td>
<td>.759</td>
<td>17.735</td>
</tr>
<tr>
<td>SIZE</td>
<td>.025</td>
<td>.015</td>
<td>.057</td>
<td>1.624</td>
</tr>
<tr>
<td>LEV</td>
<td>-.072</td>
<td>.068</td>
<td>-.052</td>
<td>-1.055</td>
</tr>
<tr>
<td>PR</td>
<td>-.841</td>
<td>.120</td>
<td>-.414</td>
<td>-7.019</td>
</tr>
<tr>
<td>Q</td>
<td>-.002</td>
<td>.002</td>
<td>-.040</td>
<td>-1.058</td>
</tr>
</tbody>
</table>

The results of the regression model first hypothesis is as follows:

\[ DA.T = 0.75 M + 0.05 SIZE + (-0.05) LEV + (-0.41) PR + (-0.04) Q + \varepsilon \]

5. Conclusions

This research is a hypothesis and Multivariate linear regression was used to test the hypotheses. Independent variables can be considered as predictors of the dependent variable. Note that in this study the relationship between Managerial Ability and Earning Quality Was a direct Recommended Investors Venture Exchange companies to invest in Its sales amount more And the amount of cost of goods sold, selling expenses General administrative, net assets and equipment, net research and development expenses, and goodwill and other intangible assets acquired by the company, it is a smaller figure.

**References**

22- Khajavy and nazemy(2005) To evaluate the association between earnings quality, economic value added with the produced wealth for stockholders ,The Iranian Accounting and Auditing Review. 11 (37):121-146.