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**EVALUATION OF CRITERIA FOR FIRM SIZE OVER THE COMPANIES'
EARNINGS MANAGEMENT LISTED IN TEHRAN STOCK EXCHANGE**

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ABSTRACT

This study examines the evaluation criteria such as firm size and companies' earnings management listed in Tehran Stock Exchange. Space and temporal domains include all companies listed in Tehran Stock Exchange and the period from 2007 to 2010, respectively. In this study, variables such as sales, finance and human resources management are considered as independent variables and earnings management as a dependent variable. In turn, three hypotheses were developed and data collected. Examined, there is a significant relationship between sales, assist and human resources and earnings management of companies listed in Tehran Stock Exchange, for all three hypotheses. It is believed that managers manage their earnings often when adopting methods that reduce fluctuations in net earnings. The reason is that managers believe investors will pay more to invest in a company that has a smooth flow of profits.

Keywords: Earnings Management, Firm Size, Human Resources

INTRODUCTION

Since earnings is one of the most important factors affecting economic decision making, consumers aware of being earnings reliable can make better business decisions which are profitable in financial statements. One of the main objectives in setting up accounting standards is that consumers can adopt

decisions relying on the financial statements fairly relevant. Auditors have a duty to verify the financial statements' utility through evaluating their compliance with frameworks specified in financial standards, while existing flexibility in accounting standards in some cases have stressed on the professional

judgment of accountants in order to select accounting methods. The advantage of this study is to try to identify the factors affecting earnings management and offer a model for its measurement. Little research has been done on earnings management. In most studies, regardless of relationship between the accounting digits and earnings management, it is emphasized on its other aspects (Rezaei et al, 2013). Only accounting research carried out in this context is a research on the study of smoothing earnings through scheduling sales of assets, which to come into exchange companies (kouchaki, 2011). The study by use of earnings from the sale of assets as a means of smoothing earnings didn't prepare a comprehensive measurement of criteria used in the earnings management to the researchers. To the conclusion that whether the managers use the profits from the sale of fixed assets and earnings management and the results have shown that there is a negative relationship between the profits from the sale of assets and performance in current year and positive one between that of expected performance and that of the sale, at the time, it is evident the sale of assets by the earnings management. In America, Chan et al found in their research that indicator of the earnings management could forecast profits in the next three years in the companies. They showed

that earnings management will affect the relationship between accruals and profits in next three years and produce a negative relationship between them. Arya et al. (2013) believes the earnings management will produce greater transparent information in decentralized organizations. This is a new work in line with the need to enrich the study of accounting. In general what we find in this study is the relationship between the sale, assets and human resources and earnings management that we see the results in Iran.

LITERATURE

Barton (2012) shows that large companies encounter more influence to get demands by analysts for more effective management of income.

Kim Liu (2012) examines the relationship between earnings management and firm size. They argue the positive effect level on earnings management use, because large companies usually have strong systems of internal control and governance mechanisms.

Byti et al measured the change rate in the company's profitability by using the rate of change in the cash flow and announced the possibility of earnings management in banks with a positive change in the cash flows to be most of the other banks.

Mac Nichols (2011) and Barton Symkou (2013) used an indicator of performance

measurement than return on equity and sales level and came to the conclusion that both of these are related to earnings management.

Charitou et al found in their research that the companies are in poor financial condition, using earnings management, reduce the profits not to portray their financial situation inappropriately. They increase profit from earnings management to proportion it to their financing.

Nelson et al (2014) demonstrated that sometimes the auditors may ignore earnings management of companies large. He argued that audit fees will increase in proportional to the size of the customer. Adjustments possibility in the financial statements by the auditor is seen less, when increasing the size of the customer, by the auditor.

METHODOLOGY

Hypotheses

- There is a significant relationship between assets of the company and earnings management.
- There is a significant relationship between companies' sales and earnings management.
- There is significant relationship between labors and earnings management.

Research Methodology

It is of quantitative and data from exchange is used. The research is of applied survey and its objective, of removal. It is a combination of

field and library methods which to identify variables requires two methods and information was gathered from the article and reputable sites and software available on the Tehran Stock Exchange with a typical company's financial statements.

The statistical population and sample

In this study, the companies listed in Tehran Stock Exchange have been selected as the statistical population and descriptive-correlation method gets used, the number of companies listed in the Stock Exchange is by 435 companies; and its temporal domain is during 2007 and 2011 including the private sector persons. The reason for this was that Tehran Stock Exchange was prospered enough in the years 2007 to 2011 and exchange companies got stimulated to apply methods of an increase in profits. In this study, 83 samples have been identified.

Data analysis method

In this study, in order to estimate the efficiency of a regression model using a combined data, one of the common effects, random effects and fixed effects models is selected using useful tests. First, to determine whether time series x_t is a stationary process (accumulation rank up to zero) or divergent (accumulation rank up to 1), we use Lyne-Levine test. Like evaluating variables' stationary we here need to use the appropriate

method for combined data. We use modified Wald test for investigating group variance heterogeneity between residuals of fixed-effects regression models. Also we use two F and Hausman tests to determine one of two methods: fixed-effect and random-effect. To illustrate the explanatory power of the explaining variables and to investigate the variables' significance and to assess the overall adequacy of the model, it was used the adjusted determination coefficient (Adjusted R²), t-statistic and F-statistics, respectively.

The statistical analysis will be done using Excel and EVIWS 7 software.

RESULTS

Evaluating variance heterogeneity

To evaluate variance heterogeneity presence, Arch-LM-test disturbing statements were conducted in the study; the results are as follows in the table 1-1:

According to Table 1-2, 1-3 two tests results, the probability obtained in both tests (F, Huassman) is less than %5 and so it should be used fixed effects methods in the relevant regression model.

Table 1-1: result of Arch-LM-test disturbing statements

Description	Statistic value	Probability
F-statistic	0.945225	0.087
Obs* R-squared	1.247852	0.087

Hausman test

Table 1-3- Result of Hausman test

Descriptive	Statistics value	Freedom degree	Probability
Cross-section F	6.414572	11	0.012*

The research hypothesis test

Table 1-4- Regression test to the hypotheses

Variable name	Influence coefficient	Estimation deviation	t-statistic	Significance level
Fix	0.415	0.259	2.145	0.004*
Firm assets	0.158	0.441	1.962	0.015*
Firm sale	0.256	0.349	1.541	0.032*
Firm Labors	0.096	0.196	2.014	0.009*
Financial leverage	-0.132	0.552	0.965	0.159*
Firm loss	0.359	0.142	1.225	0.075*
Financing	0.296	0.263	1.962	0.019*

* 5% error level

Table 1-6- explanatory and significance of the total model

R ²		Watson-Durbin	ANOVA	
Determination coefficient	Adjusted determination		F-statistics	Significance level

	coefficient			
0.633	0.624	1.704	6.115	0.000**

* 1% error level

According to table 1-4, 1-5, since Watson-Durbin test value ranges from 1.5 to 2.5, the hypothesis on non-correlation between the errors is not rejected and it can be used regression. Considering F-test value (6.115) at error level less than 0.01, it can be concluded that the research regression model consisting of independent, control and dependent variables is a good one and collection of control and independent variables are able to explain changes in earnings management. Value of adjusted determination coefficient is 0.624, showing that %62.4 of total changes in dependent variable depends on control and independent variables of the model.

The first hypothesis

According to Table 1-4- influence coefficient of companies' asset variable on earnings management is 0.158, which suggests a positive and direct impact of the companies' asset on earnings management. Given significance level of t-statistics to this variable (0.015), due to less than 5% error level, the null hypothesis can be rejected at 95% confidence level and can be expressed there is a significant relationship between companies' assets and earnings management.

The second hypothesis

According to Table 1-4- influence coefficient of firm sale variable on earnings management is 0.256, which suggests a positive and direct impact of the firm sale on earnings management. Given significance level of t-statistics to this variable (0.032), due to less than 5% error level, the null hypothesis can be rejected at 95% confidence level and can be expressed there is a significant relationship between firm sale and earnings management.

The third hypothesis

According to Table 1-4- influence coefficient of companies' labor variable on earnings management is 0.096, which suggests a positive and direct impact of the labor on earnings management. Given significance level of t-statistics to this variable (0.009), due to less than 5% error level, the null hypothesis can be rejected at 95% confidence level and can be expressed there is a significant relationship between companies' labors and earnings management.

CONCLUSIONS

AND

RECOMMENDATIONS

It is believed that managers put earnings management into practice often adopting methods that reduce fluctuations in its net profit. The reason is that the managers imagine investors to invest in a company with

smoothing current of profit pay the greater amount. This study examines earnings management in companies listed in Tehran Stock Exchange. The study was conducted using earnings management variables (Finance, Sales and Human Resources). Jones' method was used to prove the earnings management. In effect of the increase in assets and being large companies, the managers tend more to the earnings management. This study is the first thing that examined the earnings management by using three indicators: assets, sales and human resources. The study is the most completed on earnings management in Iran, trying to offer new findings using this method to examine earnings management in the companies. According to information obtained, following suggestions are offered:

1. Due to high earnings management in companies with large institutional owners, the investors are recommended, in particular minors, to contemplate on decisions of the share purchase reflect and review more on the information.
2. Given the positive relationship between asset, sales and earnings management, it is recommended these two variables to consider in their decisions.
3. Considering that investors and human resources make high earnings management of

the companies, it is recommended, it is more careful in issuing state-owned companies on the stock exchange from privatization organization.

4. Investors when using financial statements must regard the earnings management phenomenon to make decisions with respect to investing in shares or sell shares. Relying on earnings per share, regardless of the probable effect of earnings management can be undesirable results. Stock Exchange organization has enough control over financial reporting of companies listed in stock exchange.

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