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**AN INVESTIGATION OF THE RELATION BETWEEN FINANCIAL REPORTING
QUALITY AND COMPANY VALUE IN COMPANIES LISTED ON THE TEHRAN
STOCK EXCHANGE**

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ABSTRACT

The objective of this research is to investigate the relation of financial reporting quality and company value. One hypothesis and two sub-hypotheses are suggested and testes in the present research in order to achieve this goal. The independent variable in the research is financial reporting quality, which is measured by two variables of rated corporate disclosure and financial frequency. The dependent variable is company value (QTOBIN). Panel data-based multivariate regression method was used to test hypotheses. The studying companies in the research are 82 companies listed on the Tehran Stock Exchange chosen by systematic exclusion method. The studying period is from 2007 to 2013 (a period of 7 years). Results show that there exist a positive and significant relation between financial reporting quality and company value.

**Keywords: Financial Reporting Quality, Company Value, Financial Frequency, Rated
Corporate Disclosure**

INTRODUCTION

Companies' ever-increasing expansion and complexity make the existence of processes providing required information for decision-making indispensable (Didar et al., (2012). Financial Reporting (FR) is not only an end product, but is a process consisted of several

components including company's deals, selection of accounting policies, application of policies, estimations, judgments and disclosure regarding all cases. FRQ is beyond financial statements, because companies display financial information using

magazines, speeches, the Internet information centers etc (Rahmani, 2002). Regarding the mentioned issues, low-value companies can increase their share value, and consequently the improvement of their share liquidity by improving FRQ and information disclosure quality (Siagian et al., 2013). Various researches are conducted worldwide concerning internal and external factors affecting FRQ, but a limited number of researches in the stock exchange have dealt with the variable of Financial Frequency (FF) for conducting their studies. As FF increases, users' trust in the company also increases. As a result, obtaining more information concerning the company by users reduces representation cost.

In various accounting studies, FRQ is defined as managers' honesty in presenting fair information for decision-makers. Whenever managers have observed two words of impartiality and objectivity in presenting the information of financial statements, it can be claimed that FRQ is observed (Moghadam et al., 2012). FRQ refers to an area in which company's financial reports measure its economic status and performance in a period and express them honestly. FRQ implicitly is concentrated on the quality of financial statements, but it should be beyond the quality of financial statements, because

companies can publish them using other methods except financial statements such as financial journals, analysts' report, speeches, the Internet information centers etc. (Khajavi et al., 2012). The term "disclosure" in its widest concept is the sense of presenting information. Disclosure is used in accounting in a more limited form and means publishing financial information related to a company in the annual financial reports. In a number of cases, the concept becomes more limited and is in the sense of presenting information, which is not considered in the text of financial statements (Hemmatfar and Moghadasi, 2013). The analysis of annual reports shows that the quality of disclosed information in such reports is different and this difference, in all probability, has been sprung from their management thought and thought philosophy (Sajadi, 2009).

The concept of "value" is created from the past and from the time that man has been involved in trading and gathering capital and wealth. Respecting the growth of trade units, establishment of stock companies, shareholders' difference of interests and expectations and maximization of profit as companies' ultimate goal, value is defined the broker of available assets and operational efficiency. Companies' stock price is one of the most outstanding criteria of investment

stating company value for the investor (Dehghanharati et al., 2013). Investors basically are befitted from two methods of their investment including receiving share profit and price increase. Thus, a notable part of investors' output is hidden in the change of stock price. This issue makes discovering and predicting stock price as well as identifying effective variables on it vital for the users of information. Therefore, in respect to the mentioned issues and the importance of the disclosure and quality of financial reporting in discovering stock price, the present research is designed and implemented in order to answer the main question that whether a significant relation exists between FRQ and companies' stock market price or not.

2. Theoretical Principles and Suggestion of Research Hypotheses

The crucial role of financial reporting is transferring information to users effectively, validly and opportunely. Investors always are in pursuit of high-quality financial information, because the information reduces the informational asymmetry between company's management and external investors. One of the main goal of financial reporting is providing necessary information for decision-makers. Achieving this goal requires the appropriate disclosure of financial information and other relevant

information (Aboyimehrizi, 2011). In recent years, with the increase of value, stock exchange has moved towards economic dynamism and development and everyday more investment is attracted to this market. The entrance of new investors that a number of them have little knowledge regarding financial information and using it has caused that available information is evaluated in the stock exchange from different perspectives (Mirhosseini, 2012). Available reports in the series of financial statements to meet users' needs should have distinct features. According to Trueblood, the qualitative features of information in financial statements should be based largely on users' needs for the financial statements. Information should be provided impartially. The provided information should be understandable and trustable for users' decision-making in order to compare it with the previous provided information. In all cases, when information is more useful that emphasizes mostly on economic content not on technical from (Riahibalkoyi, 2011). Considering these cases, main hypothesis can be suggested as follows:

H1: A significant relation exists between FRQ and company value.

According to the two criteria used by the FRQ, the main hypothesis have been

proposed in two sub-hypotheses and tested. The first sub-hypothesis has been proposed as follows:

H11: A significant relation exist between FRF and company value.

FRF, for the group of shareholders, is defined according to the complete and fair disclosure. Therefore, FRF, for this group, can be defined as complete and transparent financial information, which prevents users from misleading or ambiguity. Generally, the ultimate goal for users of financial reports is determining company value and for shareholders is finding this question that whether information is presented sufficiently (adequacy of information) and clearly (completeness of information) or not (Rahmani, 2002). It is evident that the quality of disclosed information can help shareholders and investors in this arena and theoretically, it is expected that with the increase of the quality of disclosed information of the number of companies, company value is affected. In this regard, the mission of the present research is analyzing this issue. Disclosure means the amount of information, which is offered by companies in the text of the main financial statements or in the noted accompanied with them to help to make decision. The information offers detailed explanations concerning financial

status and the results of its performance (Hemmatfar and Moghadasi, 2013). Therefore, the second hypothesis can be suggested as follows:

H12: A significant relation exists between RCD and company value.

One of the criteria that can help both groups is financial reporting frequency (FRF). FRF usually provides more opportunely information regarding company's performance. As a result, more information increases stock price and company value as well as volume of deals making both group closer to their goals. The reduction of informational difference among dealers in capital market as well as the improvement of corporate governance can be mentioned among the advantages of FRF. The expensiveness and increase of moral problems resulted of the manager's unobservable efforts to increase FRF for reaching value and more volume of deals can be mentioned among its disadvantages.

LITERATURE REVIEW

Crisostomo et al. (2011) in their research analyzed the relation between company's social responsibilities, company value and financial performance. Their research is conducted in the statistical population of the

Stock Exchange of Brazil. The results of their research indicate a negative and significant correlation between company's social responsibilities and company value. In addition, an impartial relation exists between company's social responsibilities and company value. Siagian et al. (2013) in their research investigate the relation between methods of corporate governance and reporting quality with company value. Their research was carried out in the statistical population of the Stock Exchange of Jakarta. The obtained results show that a positive relation exists between corporate governance and criteria of company value as well as a negative relation exists between reporting quality and the criteria of company value.

Korutaro Nkundabanyanga et al. (2013) in one research analyzed the relation between accounting standards, legal framework and FRQ conducted in the Ministry of Water and Environment of Uganda. Data were collected through questionnaire. The results of the research show that accounting standards and legal framework have a positive and significant relation with FRQ. Nogueira et al. (2013) in their research examined the usefulness of financial reports in the internal decision-making of Municipality of Portugal. Results show that financial reporting with the current form and content positively affects the

usefulness of decision-making. Wan Ismail et al. (2013) in one research dealt with the explanation of difference in the profit quality of Malaysian companies after ratifying accounting standards based on the standards of international financial reporting. The mentioned results show that ratifying international standards of financial reporting have increased profit quality and have reduced profit management. Johl et al. (2013) in their research investigated the effect of internal auditing function and quality of board on the FRQ in Malaysia and concluded that a positive relation exists between internal auditing and the quality of accruals considering outsourcing internal auditing and political connections and a negative relation exist between internal auditing and the quality of accruals disregarding outsourcing internal auditing and political connections. Botti et al. (2014) in one research titled "the efficiency of corporate governance and the Internet financial reporting quality" studied the role of the board in the improvement of the Internet FRQ. The results of this research show that 28% of companies have been in the efficient border with the Internet financial reporting and 48.9% of companies have been out of this border. Azmat (2014) studied the relation between company value and optimum liquidity level. The research was conducted in

the statistical population of the Stock Exchange of Pakistan from 2003 to 2008. The research results indicate that a concave relation exists between company value and liquid resources. In addition, it was cleared that deviation from the optimum limit affect company value negatively. Rahnamye Rodposhti et al. (2013) in one research analyzed the evaluation of the disclosure effect of critical accounting procedures on the criteria of performance evaluation and FRQ. The research results show that in recent years that critical disclosure is carried out, the criteria of performance evaluation have been increased, but FRQ has not had a significant change. Ghahramani Aghdam (2014) in one research studied the relation between accounting information and the values of companies listed on the Tehran Stock Exchange. The research results indicate that accounting information has not a significant effect on company value (stock value).

METHODOLOGY

The present research is an applied and descriptive-correlative one in terms of objective and implementation, respectively. In addition, the methodology of the present research is ex-post facto, because the previous companies' data are used to analyze the hypotheses. To conduct this research, companies listed on the Tehran Stock

Exchange from 2007 to 2013 were considered as statistical population owing to the easy access to their information and their high reliability.

The sampling method of this research is systematic exclusion. For this purpose, first, all companies, which could participate in the sampling, were selected, then companies, which did not have each of the following conditions were excluded and finally 82 companies were selected to be tested. The necessity of selecting companies was fulfilling the following conditions:

- 1- Company's' fiscal year must be the end of Esfand (March)
- 2- Company must not have changed its fiscal year over the research period.
- 3- Companies must be listed on the Tehran Stock Exchange from the beginning of 2007 to the end of the fiscal year 2013.
- 4- It must not be among investment and financial broking companies.

Furthermore, panel data-based multivariate regression method is used to test hypotheses. For this purpose, Chow and Hausman tests were used to select the appropriate model and Fisher's F-test and its significant are used to analyze the accuracy of the general model. In this regard if the significance of F-statistic is lower than 5% (95% confidence level) the

general model is accepted and the existence of linear relation is confirmed. T-statistic of each variable and its significance are used to analyze the effect of independent variable on the depended one. Therefore, whenever the significance level of t-statistic of the independent variable and control variable is lower than 5%, their effect on the depended variable is also confirmed. The adjusted coefficient of determination of the model is

used to measure the exponent of the model, the general effect of independent and control variables on the depended variable.

Research Variables

In the present research, the independent variable includes FRQ and the depended variable is consisted of company value. In Table 1, their source and calculation method and type are mentioned.

Table 1: Summary of research variables

Index	Sub-index	Calculation method	Source	Role of variable in the research	Symbol of variable
Financial reporting quality	Financial reporting frequency	The frequency (number) of financial reports including the audited and unaudited ones, interim and ... in a fiscal year collected from Swiss Stock Exchange guide and adjustment to Reuter's database	(Marisa Wiled, 2005)	Independent	Frequ
	Rated corporate disclosure	The scores belonging to each company in Stock Exchange Organization through "the appropriate quality of disclosure and information"	(Hemmatfar and Moghadasi, 2013)	Independent	Disclos
Company's value	-	Total of liabilities + shareholders' market value of equity divided by total assets	(Sheyhakitash et al., 2012)	Depended	Q _T
Financial Leverage	-	The ratio of total liabilities to total assets at the end of year	(Moharami et al., 2014)	Control	LEV
Company's size	-	The natural logarithm of company's total assets at the end of year	(Moharami et al., 2014)	Control	Size

RESULTS

In this research, the relation between FRQ and the variable of company value is investigated. The criteria of FRQ include RCD and FRF. The above-mentioned

relations are tested in separate hypotheses. Sub-hypotheses are suggested to test the main hypothesis and are tested separately. Correlation method in variables and multivariate regression equations through

panel data method were used to test hypotheses.

First Sub-hypothesis

This hypothesis is suggested concerning the existence of the effect of RCD on company value and is tested using the following model:

Model 1:

$$Q_{T_{it}} = \alpha_i + \alpha_1 \text{Disclos}_{it} + \alpha_2 \text{LEV}_{it} + \alpha_3 \text{SIZE}_{it} + \varepsilon_{i,t}$$

According to the statistic of Chow test, if the probability of the model is lower than 0.05, H_0 suggesting the equality of y-intercepts is rejected and the model of fixed effects is preferred. According to the statistic of Chow test concerning cross-section fixed effects, its probability is lower than 0.05 and regarding period fixed effects, its probability is higher than 0.05. Therefore, H_1 suggesting the equality of y-intercepts is rejected and the model of cross-section fixed effects is preferred.

After carrying out Chow test and selecting the model of cross-section fixed effects for selecting the method of testing data, Hausman test is used among the two methods of fixed effects and random effects. The results relevant to Hausman test are presented in Table 4.

According to the probability relevant to the test, which is lower than 0.05, random effects are rejected and fixed effects are confirmed at

95% confidence level. Results relevant to testing the first hypothesis are presented in Table 5.

According to F-statistic and its relevant probability, it can be concluded that the regression equation is significant at 99% confidence level. Results relate to Durbin-Watson statistic (lack of autocorrelation of error terms) for the model show the relative independency of data.

Adjusted coefficient of determination of the model expresses the rate of relevancy of independent variables to the depended variable (company value). According to Table 5, the adjusted coefficient of determination of the model is 0.86. Therefore, averagely 86% of changes of the depended variable is explained by this model. According to the results of testing the model, the probability relevant to the variables, the variables of rated corporate disclosure (D), financial leverage (LEV) and company's size (SIZE) have probability lower than 0.01. Thus, these variables are significant in the model at 99% confidence level. According to the significance of the variable of RCD (D), which is the main variable, it can be claimed that a significant relation exist between RCD (D) and company value. Furthermore, the coefficient sign of this variable is positive in the model shows that this relation is positive.

Therefore, according to the results of the model, the first sub-hypothesis of this research is confirmed.

Second Sub-hypothesis

This hypothesis is suggested concerning the existence of the effect of FRF on company value (QTOBIN) and is tested using the following model:

Model 2:

$$Q_{T_{it}} = \alpha_i + \alpha_1 \text{Frequ}_{it} + \alpha_2 \text{LEV}_{it} + \alpha_3 \text{SIZE}_{it} + \varepsilon_{i,t}$$

Tables 6 and 7 show the results of F test for determining the appropriateness of regression concerning the hypothesis.

According to the statistic of Chow test concerning cross-section fixed effects, its probability is lower than 0.05 and regarding period fixed effects, its probability is higher than 0.05. Therefore, H_1 suggesting the equality of y-intercepts is rejected and the model of cross-section fixed effects is preferred.

After carrying out Chow test and selecting the model of cross-section fixed effects for selecting the method of testing data, Hausman test is used among the two methods of fixed effects and random effects. The results relevant to Hausman test are presented in Table 8.

According to the probability relevant to the test, which is lower than 0.05, random effects

are rejected and fixed effects are confirmed at 95% confidence level. Results relevant to testing the second hypothesis are presented in Table 9.

According to F-statistic and its relevant probability, it can be concluded that the regression equation is significant at 99% confidence level. Results relate to Durbin-Watson statistic (lack of autocorrelation of error terms) for the model show the relative independency of data.

Adjusted coefficient of determination of the model expresses the rate of relevancy of independent variables to the depended variable (company value). According to Table 9, the adjusted coefficient of determination of the model is 0.84. Therefore, averagely 84% of changes of the depended variable is explained by this model. According to the results of testing the model, the probability relevant to the variables, the variables of financial reporting frequency (F), financial leverage (LEV) and company's size (SIZE) have probability lower than 0.01. Thus, these variables are significant in the model at 99% confidence level. According to the significance of the variable of FRF (F), which is the main variable, it can be claimed that a significant relation exist between RFF (F) and company value. Furthermore, the coefficient sign of this variable is positive in the model

shows that this relation is positive. Therefore, according to the results of the model, the second sub-hypothesis of this research is also confirmed. In respect to the results of testing sub-hypotheses and the confirmation of these

two hypotheses, it can be claimed that a significant relation exists between FRQ and company value and the first hypothesis of this research is confirmed.

Table 2: Results of cross-section fixed effects

Redundant Fixed Effects Tests			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	7.005	(81.489)	0.000
Cross-section Chi-square	442.1722	81	0.000

Table 3: Results of period fixed effects

Redundant Fixed Effects Tests			
Test period fixed effects			
Effects Test	Statistic	d.f.	Prob.
Period F	1.1924	(6.564)	0.0543
Period Chi-square	9.1703	6	0.1039

Table 4: Results of Hausman test of the first sub-hypothesis

Correlated Random Effects - Hausman Test			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.795	3	0.002

Table 5: Analysis of the first sub-hypothesis

Estimation period: 2007-2013					
Cross-section fixed (dummy variables)					
Adjusted coefficient of determination	0.861419				
F-statistic	43.40195				
Prob	0				
Durbin-Watson statistic	1.909914				
Explanatory variable	Coefficient	Standard deviation	t-statistic	Prob	Confidence level
D	0.0011	0.000413	2.661642	0.008	99%
LEV	0.384226	0.043179	8.89852	0	99%
SIZE	0.502218	0.030382	16.53009	0	99%
C	-5.32825	0.387248	-13.7593	0	99%

Table 6: Results of cross-section fixed effects

Redundant Fixed Effects Tests			
Test cross-section fixed effects			

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.527	(81.489)	0.007
Cross-section Chi-square	441.29	81	0.014

Table 7: Results of period fixed effects

Redundant Fixed Effects Tests			
Test period fixed effects			
Effects Test	Statistic	d.f.	Prob.
Period F	1.817	(6.564)	0.0526
Period Chi-square	6.569	6	0.0861

Table 8.:Results of Hausman test of the second sub-hypothesis

Correlated Random Effects - Hausman Test			
Test Cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.924	3	0.0074

Table 9: Analysis of the second sub-hypothesis

Estimation period: 2007-2013					
Cross-section fixed (dummy variables)					
Adjusted coefficient of determination	0.849399				
F-statistic	42.69482				
Prob	0				
Durbin-Watson statistic	1.835341				
Explanatory variable	Coefficient	Standard deviation	t-statistic	Prob	Confidence level
F	0.001492	0.000361	4.129267	0	99%
LEV	0.421372	0.08087	5.210479	0	99%
SIZE	0.557517	0.028128	19.82084	0	99%
C	-6.07768	0.337603	-18.0025	0	99%

DISCUSSION AND CONCLUSION

Theoretically, it is expected that the quality of providing financial reporting attracts investors’ more confidence and consequently, the improvement of company value. Thus, in the present research, the relation between FRQ and company value is studied. The studying criteria for FRQ have been FRF, RCD in company and the depended variable of company value, respectively. The main

hypothesis investigated the existence or nonexistence of the relation between FRQ and company value. For this purpose, the main hypothesis is converted into two sub-hypotheses. The first sub-hypothesis investigated the existence or nonexistence of the relation between RCD and company value. The results indicate that a positive and significant relation exists between RCD and company value. In other words, as RCD

increases, company value increase and as RCD decreases, company value also decreases. Thus, the first sub-hypothesis is confirmed. It can be expressed that having high level of disclosure by companies can result in the increase of investors' motivation in them due to the greater informational transparency. As a result, company value also increases. The second sub-hypothesis investigated the existence or nonexistence of the relation between FRF and company value. The results indicate that a positive and significant relation exists between FRF and company value. In other words, as FRF increases, company value increase and as FRF decreases, company value also decreases. Thus, the second sub-hypothesis is confirmed. FRF usually provides more opportunely information concerning company's performance and for the users. As a result, more information increases stock price and consequently increase company value.

According to the results of testing sub-hypotheses and the confirmation of these two hypotheses, it can be claimed that a positive and significant relation exists between FRQ and company value and the main hypothesis of this research is confirmed. The research results of the first sub-hypothesis are consistent with the results of researches conducted by Sajadi et al. (2009) and

Rahnamye Rodposhti et al. (2012) and are inconsistent with the results of research conducted by Siagian et al. (2013), but according to the results of the second sub-hypothesis, no domestic comparative results exist.

Research-based Suggestions

According to the results of H1, it was showed that RCD improves company value. Therefore, it is suggested to the studying companies that have greater endeavor in observing disclosure necessities (necessities of timeliness and reliability) in order to promote company value and consequently provide shareholders and interested ones' greater satisfaction. In this regard, it is suggested to Stock Exchange Organization that offer RCDs in interim and three-month forms instead of annual one so that users can use them in their decisions better and more opportunely. Regarding the results of H2, it was that a positive and significant relation exists between FRF and company value. Thus, it is suggested to companies listed on the stock exchange that provide users with their financial reports, because this brings satisfaction to shareholders and consequently increase company value. Interim financial statements (audited and unaudited), report of stock profit distribution, reports of assemblies etc. can be mentioned among such reports.

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