

Impact of implementing accounting standards 30 and 31 on information content of the firms listed on the Tehran Stock Exchange

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Abstract: In the competitive world, the successful countries are the ones which have available financial resources in order to invest their funds and allocate their sources in a way they could achieve the maximum return. Based on the limitation of the financial resources, a correct decision must be made for the investment of the funds. Accounting holds the responsibility of neutral informing on the information society and plays a significant role in enhancing the information quality. To achieve the accounting objectives, some standards are set and the accountants and other providers of the accounting reports and information are required to follow them. As a result, the accounting standards are established in a way they could enhance the information quality and make the users informed. The present study seeks to examine whether the implementation of the accounting standards 30 and 31 impact the information content. Price to earnings ratio, profitability index, earnings per share and leverage are used to measure the information content of earnings. Using a sample composed of 122 listed firm on the Tehran Stock Exchange for a period from 2006 to 2011 and panel data approach, the research hypotheses are examined. The findings reveal that implementing standards 30 and 31 has significant impacts of the price to earnings ratio and earning per share; however, these standards have no significant impacts on the other financial ratios (profitability index and leverage).

Key words: *Iran accounting standards; Information content of earnings; Price to earnings ratio; Earnings per share*

1. Introduction

One of the fundamental requirements for assuring the investors and creditors to take constructive actions is providing information which is known to be useful in making financial and economic decisions. There should be some mechanisms for assuring the investors and other users about the quality of the financial information in order to improve the efficiency of the capital market and allocate the funds optimally. However, the significant information for the investors and other users should be sufficiently disclosed to be useful in their decision making. The financial statements are the most important source of investors for receiving information. The financial statements are prepared and published based on accounting standards and that is the reason for the significance of the precise preparation of these standards. As a result, the accounting standards are established in a way they could enhance the information quality and make the users informed (Saghafi and Ebrahimi, 2009).

The national economy needs some regulations by which it could make the business environment transparent and attractive and regulate the economic relationships to protect the rights of the participants. The Stock Exchange regulations are the

most important ones among the accounting standards. Financial instruments, financial market and financial institutions are the three main bases of the financial regime which are responsible of transferring surplus funds in the society to those fields with the lack of financial resources. The correct establishment of these fundamentals in the society will cause the economic prosperity. To achieve the macroeconomic objectives, the financial system should move towards an advanced financial system in which the standards of accounting and reporting are followed along with the requirements of the capital market. As a result, it is very necessary to follow these rules and regulations to increase the level of investments and production (Vakili Fard et al., 2009). The establishment of accounting standards has various consequences for many individuals. The standard setters try to enhance the reporting quality by establishing suitable standards which are used in their evaluations for the future standards. Furthermore, the investors benefit from the better recognition of the general validation of the accounting standards. The accounting standard 30 describes some regulations and provides EPS to improve the comparability of the performance of different business units in a reporting period and also improve the comparability of the performance of one specific business unit in different reporting periods. Consequently, the present study seeks to find whether the implementation of the accounting

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standards 30 and 31 impact the information content of the firms.

2. Theoretical Bases and Research Background

Considering the theoretical bases and previous backgrounds, the weakness and strong points are discovered. As a result, the researcher might select the appropriate research plan and control or remove the observable deficiencies of the prior methodologies (Sarmad et al., 2012). Because of the significance of the literature review and previous studies, the next section reviews the prior literature and research history.

2.1. Introduction to Iran Accounting standards 30 and 31

Earnings per share serves as a commonly used phrase in the financial market. Comparing this indicator based on changes in the capital has provided difficulties in the stock exchanges which are aimed to be resolved through establishing accounting standard 30. This standard seeks to establish some regulations for the determination and provision of EPS in order to improve the comparability of the performance of different business units in one reporting period and also improve the comparability of the performance of one business unit in different reporting periods. Various accounting trends for determining EPS caused limitations in information about EPS; however, the consistency in determining the denominator of EPS calculation formula enhances the financial reporting quality. As a result, the main emphasize is on the denominator of the EPS formula. The application range of standard 30 is so extensive that it should be employed by the business units which have publicly traded their common stocks or are going to publicly trade their stocks. The business units which represent the consolidated and separate financial statements together should consider the disclosure requirements of this standard only based on the consolidated information. The information about EPS should be separately disclosed in the context of the income statement when a company intends to disclose EPS based on separate financial statements. On the other hand, the other business units must disclose the amount of EPS based on this standard. According to accounting standard 31, the non-current assets held for sale should be valued at lower of cost or net sales value. Non-current assets held for sale are those assets with the values restored mainly through sale and not through continued usage of the assets. The depreciation of these assets stops from when they are classified as held for sale assets. These assets might be in form of a specific property such as a building or might be in terms of a subsidiary unit. The accounting standard 31 provides a new definition and representation method of the discontinuing operations and excludes provisions 18 to 25 of the accounting standard 6. Based on this standard, the income statement is divided into two

sections of continuing and discontinuing operations and the extraordinary items are excluded (Audit Organization, 2008).

2.2. Theoretical Bases and Concepts of the Information Content

The investors and other stakeholders have been always interested in those variables and factors which contribute them in making more optimal decisions with the maximum return and minimum risk. In doing so, the researchers seek to identify, examine and test the information content and explanatory power of these variables (Pour Heydari and Kermanshahi, 2010). The information content might be defined as the changes in the expectations related to an event. In doing so, the changes in the expectations should be to the extent that they lead to changes in the behaviors of the decision makers. On the other hand, the information content of an accounting measure means its usage and usefulness in decisions made by the capital market (Barandan, 2011). Accounting aims to provide financial information for the users to help them in improving the decision making process. However, the accounting studies and researches seek to evaluate the usefulness of the information for making decisions by the investors and other users. The financial statements are significant resources for gathering information required by the investors (Goodwin and Ahmed, 2006). The profit is one of the most important elements of the companies. In fact, the investors and many other users consider the accounting profit as essential information resources used to evaluate the performance of the companies. Penman et al (2007) consider the earnings as the main element of stock pricing. The debate on information content of accounting earnings has been comprehensively growing since Ball and Brown (1968). Various approaches have been used by the researchers to examine the information content of the accounting earnings. Most of them agree that the accounting profit has information content of earnings (Rahnama Roudposhti et al., 2010). Specifically, the information content of the reported earnings might be defined by the level of changes in the stock prices or by the abnormal return at the time the market becomes aware of the current net earnings. It is then argued that when the investors are aware of the earnings, they buy and sell stocks and modify their opinion about the future return (Setayesh and Ebrahimi, 2012).

In the present study, the information content of the earnings is evaluated by measuring the changes in some of the key financial ratios. The financial ratios in this study are defined below:

2.2.1. Per Share Earnings (P/E) Ratio

Some ratios evaluate the opinion of the shareholders about the company. Per share earnings ratio is one of these measures calculated by dividing the market value per share by the earnings per

share. The higher ratio of P/E is a satisfactory indicator because it shows that most of the investors predict a good future for the company (Noori and Moradi, 2009):

$$P/E \text{ ratio} = \frac{\text{Market Value per Share}}{\text{Earnings per Share}}$$

2.2.2. Earnings per share

This ratio shows the portion of the company's profit allocated to each outstanding share of common stock. When the capital structure is composed of preferred stocks in addition to the common stocks, the profit allocated to the preferred stocks should be deducted from the net income to determine the amount allocated to the common stock owners. However, when there are no preferred stocks in the capital structure, EPS is calculated by dividing net income by the issued stocks. EPS is known as a useful measure in evaluating the operational performance of the company (Khodami Pour and Mahroumi, 2012):

$$EPS = \frac{\text{Net income} - \text{Earnings of the preferred stock}}{\text{Number of the issued stocks}}$$

2.2.3. Profitability Index

Profitability index is the ratio of net earnings to the sales. This index represents the profitability of the revenues and is considered as a significant item for measuring the operational performance of the companies. This index refers to the effects of pricing productions, cost components and production efficiency. Profitability index is calculated by the following formula:

$$\text{Profitability index} = \frac{\text{Net income}}{\text{net sales}}$$

2.2.4. Financial Leverage (FL)

There are two approaches in defining financial leverage:

- Income statement approach which examines the relationship between earnings before interest and tax and earnings per share. The degree of the financial leverage shows the extent to which the earnings per share has changed for one percent of change in the earnings before interest and tax.
- Balance sheet approach which provides two definition for the operating leverage:
- The ratio of debts to the owners' equity
- The ratio of debts to the total assets (Fallah Javeshghani, 2006).

The present study uses balance sheet approach to examine the information content of earnings.

2.3. Research Background

Mahdavi and Nariman kar (2005) examined the impact of national accounting standards on the auditors' opinions quality. They concluded that these

standards enhance the quality of the opinions expressed by the independent auditors. Saghafi and Ebrahimi (2009) investigated the link between setting accounting standards and quality of the accounting information. The findings revealed that implementing the accounting standards in the robustness model has been accompanied by the relative improvement in consistency. The other models, however, are not found to have significant impacts. Vakilifard et al. (2009) examined the impacts of implementing Iran accounting standards and business rules and regulations and considered firm size and the age of listing firms. It is found that the sample firms have implemented Iran accounting standards and the business rules and regulations. Firm size is found to have no impacts on these items. However, the duration of listing is documented to have a negative impact. Hosseini (2009) examined the accounting standards and their impact on the capital structure of the firms listed on the Tehran Stock Exchange. The results represent the mitigation of information asymmetry after establishing accounting standards. Abbas Zadeh and Atash Golestani (2010) selected a sample of the firms listed on the Tehran Stock Exchange and examined whether the relationship between the selected accounting measures and stock returns have improved after the implementation of Iran accounting standards. The findings suggest a significant relationship between some of the selected accounting measures and stock returns after and before implementing standards.

Nikoumaram and Fathi (2011) examined the impact of national standards of Iran's accounting on the quality of the financial reporting and earnings persistency. They found that there is no significant difference between the earnings persistency after and before the implementation of the accounting standards; that is, the accounting standards have no impact on the earnings persistency. Darabi and Moradlou (2011) investigated the relationship between information transparency and information content of the accounting earnings in the firms listed on the Tehran Stock Exchange. Their findings revealed that there is no positive relationship between information transparency and information content of the accounting earnings. Yavari (2011) tried to find whether the establishment and implementation of the accounting standards impact the disclosure level of the financial information of the firms listed on the Tehran Stock Exchange. He concluded that there is a significant difference between the disclosure level before and after the adoption and implementation of the accounting standards. It was also found that the level of the information disclosure in the Tehran listed firms increased by establishing and implementing accounting standards. Mehrazin et al (2012) explored the association between information content of earnings and transparency level of the financial information in Iran. The results of the hypotheses testing revealed that in the companies with low transparent information, the earnings have

higher information content for the market. Setayesh and Ebrahimi (2012) investigated the effect of corporate governance mechanisms on the information content of the earnings of the firms listed on the Tehran Stock Exchange. They found a significant positive relationship between the information content of the earnings and ownership concentration and institutional ownership.

Hung and Subramanyan (2004) examined the effects of accepting international accounting standards on the financial statements. They finally concluded that international accounting standards impact the fair values and balance sheet evaluations. Kohlbeck and Warfield (2005) examined the impact of principles-based-standards on the accounting quality. They confirmed the increasing significance of accounting quality from the perspective of analysts and investors. However, the accounting quality based on accounting characteristics caused lower persistency. Armstrong et al (2007) suggested that the stock market has a positive reflection to the early acceptance of international financial reporting standards. It confirms that the European investors identify their benefits resulted from the convergence of accounting standards and higher quality of information. Christensen et al (2007) tested the economic consequences of the British companies after the EU decision about mandatory implementation of international financial reporting standards. They showed that the temporary changes in the short-term reflections of the market and long-term changes on the cost of capital are related to decision making. Susana et al (2007) examined the impact of implementing international financial reporting standards on the financial statements of Spain companies. They concluded that the implementation of the new standards did not reinforce the existing situations. Barth et al (2008)

compared the specifications of the accounting figures in 21 countries which used international standards and those countries which relied on the national standards. Their findings confirmed that the implementation of the international standards causes lower earnings management, ontime recognition of the losses and enhanced quality of the accounting information. Nobanee and Hajjar (2009) investigated the relationship between working capital management, operating cash flow and firm's performance over 1990 to 2004. They found that the managers might have better financial performance by shortening cash conversion cycle and accounts receivable turnover. Lantto, Anna and Sahlstorm (2009) conducted a study about the impact of implementing international standards on the key financial ratios. The findings of this study revealed that employing international standards in Finland resulted in higher profitability ratio, lower P/E ratio, lower cash ratios and higher leverages. Dilitte Institute (2010), one of the big audit institutes in the United States, examined the accounting standards in small corporations. It was found that these companies support their specific accounting standards.

The above mentioned documents show that there is no study about the impact of standards 30 and 31 on the financial statements and their information content. However, some researchers have generally examined the impact of implementing standards. As a result, the impact of implementing standards 30 and 31 on the financial statements (specially its effects on P/E ratio, profitability index, EPS and financial leverage) is selected as the dependent variable. The independent variables are standards 30 and 31. The conceptual model of the study is defined in Fig. 1.

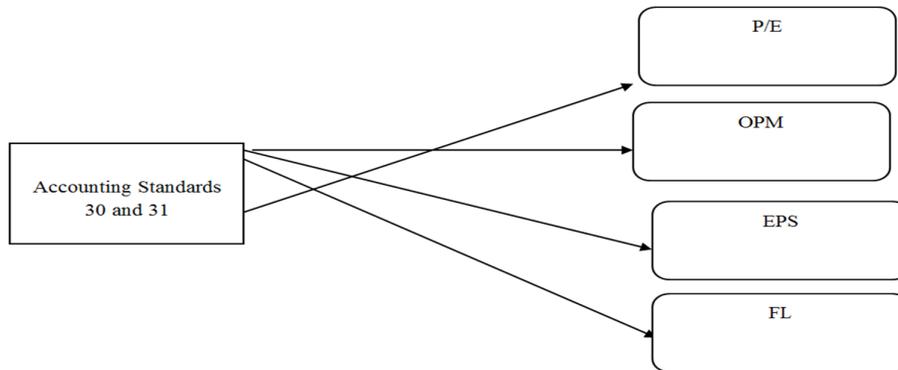


Fig. 1: The conceptual model of the study

3. Methodology

The research methodology depends on the objective and nature of the study. This is an inductive study because it uses the observations from the sample to develop a model for the population. Furthermore, this is an analytical study trying to explain the relationship between the

variables by using statistical tests. The required data for the theoretical discussions such as literature review is gathered by library method and the empirical data is collected by field studies and historical data through databases and annual journals and reports of the Tehran Stock Exchange. It must be mentioned that the data for testing the hypotheses is exploited from Rahavard-e-Novin and Tadbir Pardaz software. The validity of the data is

confirmed by random sampling and the formal reports and information published by Tehran Stock Exchange. The collected data is analyzed by EXCEL and SPSS. The independent variable of this study is the implementation and non-implementation of standards 30 and 31 and the dependent variable is the information content of the earnings. The research model and the variables and their calculation methods are described below.

$$\frac{P_{i,t}}{E_{i,t}} OPM_{i,t}, FL_{i,t}, EPS_{i,t} = \beta_1 STANDARD_t + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} - LIST_{i,t} + \varepsilon_t$$

Where in it;

STANDARD_t: This variable is equal to one when the standards 30 and 31 are efficient and zero, otherwise.

$\frac{P_{i,t}}{E_{i,t}}$: This is an indicator of P/E ratio and is a dependent variable.

EPS_{i,t}: This variable shows the earnings per share and is calculated by dividing total earnings by the number of the stocks.

OPM_{i,t}: The following formula is used to measure this item:

$$OPM_{i,t} = \frac{Marginal\ Earning_{i,t}}{Marginal\ Income_{i,t}}$$

SIZE_{i,t}: This is an indicator of the firm size and used as a control variable. This variable is calculated by the logarithm of the total assets.

AGE-LIST_{i,t}: This is a control variable and is an indicator of the level and age of the listed firms.

3.1. Population and Sample

The population of this study is composed of the whole firms listed on the Tehran Stock Exchange. This population is selected because of the availability of the financial information about the Tehran listed firms and the specific homogenous regulations of this exchange. The sample firms are selected among the firms except for the financial intermediaries and investment companies. The four following criteria are used to select the sample:

1. The sample firms are listed on the Tehran Stock Exchange from the beginning of 2006.
2. The sample firms have not changed their fiscal period and their stocks have been traded over this period.
3. The ending of the fiscal years of the sample firms is consistent with the calendar year (The other firms

are excluded in order to consider the time the specific standards became effective).

4. The required data of the sample firms should be available.

The sample firms are selected based on filtering technique and 122 companies (732 firm-year observations) are chosen as the sample.

3.2. Research Hypotheses

A hypothesis is a knowledge-or-experience based explanation for a problem and is considered as an assumed relationship between two variables represented as testable statements (Khaki, 2003). The following hypotheses are developed:

The first hypothesis: The implementation of accounting standards 30 and 31 has significant impact on P/E ratio.

The second hypothesis: The implementation of accounting standards 30 and 31 has significant impact on OPM.

The third hypothesis: The implementation of accounting standards 30 and 31 has significant impact on EPS.

The fourth hypothesis: The implementation of accounting standards 30 and 31 has significant impact on FL.

4. Research Findings

4.1. * Analyzing the first hypothesis

The first hypothesis examines the impact of implementing accounting standards 30 and 31 on P/E ratio. In terms of the statistical relationships, this hypothesis is explained as follows:

$$H_0 : b_s = \hat{\beta}_s$$

$$H_1 : b_s \neq \hat{\beta}_s$$

Based on Table1, F Limer test is 9.74 and its significance level is 0.000 (p<0.05); that is, the calculated F Limer confirms that the null hypothesis should be rejected and the panel data should be used. On the other hand, the results of Breusch-Pagan test confirm the rejection of the null hypothesis and it indicates the random effects. Hausman test also confirms the effectiveness of fixed-effect in comparison with random effect. Generally, the fixed-effect panel data is selected to estimate the intended equation.

Table 1: Results of tests used to determine the methods used for the first hypothesis

| Test | Index | Statistics | Sig. level | Result |
|---------------|-------|------------|------------|------------------------------|
| F Limer | | 2.94 | 0.000 | Panel data |
| Breusch-Pagan | | 77.78 | 0.000 | Random effects |
| Hausman | | 3.91 | 0.2717 | Efficiency of random effects |

As a result, the pool data should be used to test this relationship. Using Stata, the information is summarized in Table 2.

Table 2: Model of random effects for testing the first hypothesis

$$\frac{P_{i,t}}{E_{i,t}} = \beta_0 + \beta_1 \text{STANDARD}_t + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{AGE_LIST}_{i,t} + \varepsilon_t$$

| Variable \ Index | Coefficient | Std. deviation | Statistics z | Sig. level |
|------------------------|-------------|----------------------------|--------------|------------|
| Standard | 0.732177 | 0.124783 | 5.87 | 0.000 |
| SIZE | -0.0097157 | 0.0070439 | -1.38 | 0.168 |
| AGE-LIST | -0.0017767 | 0.0007418 | -2.40 | 0.017 |
| Intercept | 0.0279933 | 0.0971093 | 0.29 | 0.773 |
| 0.06 (R ²) | | 0.000)11.12 (F-statistics) | | |

As shown in table 2, it is concluded that implementing standards 30 and 31 has significant positive impact on P/E ratio. The findings of data analysis represent that there is a positive relationship between these two variables and this coefficient is 0.07; while the significant level of this variable is 0.00 which is significant at the 95 percent level. In terms of the control variables, AGE-LIST is found to have negative relationship with P/E ratio. Consequently, F statistic shows the general validity of the model. Based on table 2, the calculated F is greater than F in the table (p<0.05); it is then concluded that this model is significant at the 95 percent level. In other words, this model is valid and the findings show that R² of the model is 6% which states that 6 percent of the changes in the dependent variable are explained by independent and control variables.

4.2. Analyzing the second hypothesis

The second hypothesis examines the impact of accounting standards 30 and 31 on OPM. This hypothesis is explained as follows:

$$H_0 : b_s = \hat{\beta}_s$$

$$H_1 : b_s \neq \hat{\beta}_s$$

Based on table 2, the calculated F is 1.24 and the significance level is 0.054 (p>0.05) and it is concluded that the calculated F Limer confirms the non-rejection of the null hypothesis and the pool data should be used.

Table 3: Results of tests to determine the method used for the second hypothesis

| Test \ Index | Statistics | Sig. level | Result |
|--------------|------------|------------|-----------|
| F Limer | 1.24 | 0.054 | Pool data |

The results of testing the hypothesis by using Stata software are represented in Table 4.

Table 4: Model of random effects for testing the second hypothesis

$$\text{OPM}_{i,t} = \beta_0 + \beta_1 \text{STANDARD}_t + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{AGE_LIST}_{i,t} + \varepsilon_t$$

| Variable \ Index | Coefficient | Std. deviation | T statistics | Sig. level |
|------------------------|-------------|-----------------|--------------|------------|
| Standard | -11.14704 | 10.38103 | -1.07 | 0.283 |
| SIZE | 9.978171 | 3.469759 | 2.88 | 0.004 |
| AGE-LIST | -0.9213774 | 0.3580574 | -2.57 | 0.010 |
| Intercept | -77.34923 | 47.67032 | -1.62 | 0.105 |
| 0.02 (R ²) | | 0.000) 4.97 (F) | | |

According to table above, it is found that implementation of standards 30 and 31 has no significant impact on OPM. In terms of the control variables, both variables of SIZE and AGE-LIST are significant. Based on table 4, SIZE is found to have positive relationship with OPM and this is significant at the 0.004 level. Based on table 4, the calculated F is greater than F in the table (p<0.05); it is then concluded that this model is significant at the 95 percent level. In other words, this model is valid and the findings show that R² of the model is 2% which states that 2 percent of the changes in the dependent variable are explained by the independent variables.

4.3. Analyzing the third hypothesis

The third hypothesis examines the impact of implementing accounting standards 30 and 31 on EPS. This hypothesis has the following statistical form:

$$H_0 : b_s = \hat{\beta}_s$$

$$H_1 : b_s \neq \hat{\beta}_s$$

According to table 6, the calculated F statistic is 3.03 and its significance level is 0.000; in other words, the calculated F Limer confirms the rejection of the null hypothesis and the panel data should be employed. On the other hand, the result of Breusch-Pagan confirms the random effects and shows that the panel data approach based on random effects should be used to estimate the equation.

Table 5: Results of the used tests to determine the method for the third hypothesis

| Test \ Index | Statistics | Sig. level | Result |
|---------------|------------|------------|-----------------------------|
| F Limer | 3.03 | 0.000 | Panel data |
| Breusch-Pagan | 67.77 | 0.000 | Random effects |
| Hausman | 3.91 | 0.000 | Efficiency of Fixed effects |

Table 6 represents the tests of inequality of variances for the third hypothesis. Testing χ^2 shows

Table 6: Testing the inequality of variances for the third hypothesis

| Test \ Index | Statistics | Sig. level | Result |
|--------------|------------|------------|-------------------------|
| likelihood | 12281.66 | 0.000 | Inequality of variances |

Table 7: OLS model for testing the third hypothesis

| $EPS_{i,t} = \beta_0 + \beta_1 STANDARD_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_LIST_{i,t} + \epsilon_t$ | | | | |
|--|-------------|----------------|--------------|------------|
| Variable \ Index | Coefficient | Std. deviation | t statistics | Sig. level |
| Standard | -62.65918 | 18.28774 | -3.43 | 0.001 |
| SIZE | 38.26955 | 5.854457 | 6.54 | 0.000 |
| AGE-LIST | 4.395946 | 0.5583409 | 7.87 | 0.000 |
| Intercept | -232.6351 | 79.60638 | -2.92 | 0.003 |
| 0.08 (R ²) | | 0.000)18.1 (F) | | |

Based on table 7, it can be concluded that the implementation of accounting standards 30 and 31 has significant negative impact on EPS. The results of data analysis showed that there is a negative relationship between these two variables. The coefficient of this variable is -62.65 which is significant at the 95 percent level. It is found that both SIZE and AGE-LIST are significantly associated with EPS. Generally, F statistic measures the validity of the model. According to table 7, the calculated F is greater than F of the table (p<0.05); then it is concluded that this model is significant at the 95 percent. In other words, this model is valid. The findings also reveal that R² of the model is 8% and it means that 8 percent of the dependent variables is explained by independent and control variables.

4.4. Analyzing the fourth hypothesis

The fourth hypothesis examines the impact of implementing standards 30 and 31 on FL. This relationship is as follows:

$$H_0 : b_s = \hat{\beta}_s$$

$$H_1 : b_s \neq \hat{\beta}_s$$

Table 9: Results of testing the inequality of variance for the fourth hypothesis

| Index \ Test | Statistics | Sig. level | Result |
|------------------|------------|------------|---------------------------------|
| Likelihood ratio | 0.00 | 1.00 | Lack of inequality of variances |

According to table above, the fixed-effect panel data approach should be used to test the fourth

that the equality of variances is rejected and it is clear that the variances are not equal.

Therefore, GLS method is used to estimate the equation related to the third hypothesis. The results of estimating model after removing the inequality of the variances are represented in table7:

Based on table 8, the calculated F is equal to 2.94 and the significance level is 0.000 (p<0.05); in other words, the calculated F Limer shows that the null hypothesis should be rejected and the panel data approach is confirmed. The Hausman test also confirms the efficiency of random effects approach. Generally, the random effects panel data is used to estimate the equation.

Table 8: Results of the tests used to determine the method for the fourth hypothesis

| Test \ Index | Statistics | Sig. level | Result |
|---------------|------------|------------|-----------------------------|
| F Limer | 11.09 | 0.000 | Panel data |
| Breusch-Pagan | 668.51 | 0.000 | Random effects |
| Hausman | 32.23 | 0.000 | Efficiency of Fixed- effect |

Table 9 represents the results of testing the inequality of variance for the fourth hypothesis. The value of χ^2 shows that the equality of the variance is not rejected and the problem of the unequal variances does not exist in the model.

hypothesis. Using Stata software, the findings are summarized in table 10.

Table 10: Fixed-effect model for the fourth hypothesis

| $FL_{i,t} = \beta_0 + \beta_1 STANDARD_i + \beta_2 SIZE_{i,t} + \beta_3 AGE_LIST_{i,t} + \varepsilon_i$ | | | | |
|--|-------------|---------------------|--------------|------------|
| Index Variable | Coefficient | Std. deviation | t statistics | Sig. level |
| Standard | -0.0103755 | 0.218918 | -0.47 | 0.636 |
| SIZE | -0.1515143 | 0.0233515 | -6.49 | 0.000 |
| AGE-LIST | 0.0302778 | 0.0065816 | 4.6 | 0.000 |
| Intercept | 1.720757 | 0.3004256 | 5.73 | 0.000 |
| $0.08 : (R^2)$ | | $(0.000) 18.58 : F$ | | |

The results in table 10 show that the implementation of accounting standards 30 and 31 has no significant impact on FL. In terms of the control variables, SIZE and AGE-LIST are found to be significant. Based on the findings in table 10, SIZE has a negative relationship with the financial leverage. AGE-LIST is positively associated with financial leverage. The calculated F is greater than F of the table ($p < 0.05$) and it is concluded that this model is significant at the 95 percent level. In other words, this model is found to be valid. In addition, R^2 of the model is 0.08 and it represents that 8 percent of the changes in the dependent variable is explained by the independent and control variables.

5. Discussion, Conclusion and Suggestion

The economic prosperity requires some regulations which make the business environment transparent and attractive and have interactions with the global economy and regulate the economic relationships in this field. Accounting standards are among these regulations. Through the financial statements, the standards provide the required information about the financial position, operation results and corporate behavior. According to the accounting standards, the objective of preparing financial statements and disclosing the financial information is providing useful information about the financial position and operating results for making better decisions. The information might be obtained through different sources. The transparent financial statements are reliable, comprehensive, and timely. In other words, the transparent financial statements have information content. The shareholders mostly rely on the information related to earnings. Francis et al (2005) argue that the net income is one the key elements of the financial reports. The net income reported in the financial statements is a significant measure of performance evaluation and it determines the value of the entity and has been widely used by accounting practitioners, financial directors, analysts of the stock market, investors and shareholders. This study seeks to find whether the implementation of accounting standards 30 and 31 impact the information content of the earnings. The financial ratios are one of the common instruments to interpret the information on the financial statements. The changes in the items of the financial statements might be clearly observed. To measure the information content of the earnings, some

financial ratios such as P/E ratio, OPM, EPS and FL are used. The present study covers a period from 2006 to 2011 (a six-year period) and 122 firms are selected as the sample. The results of testing the hypotheses reveal that implementing standards 30 and 31 has significant impacts on P/E and EPS. However, it is found that the implementation of standards 30 and 31 has no impact on the other measures including OPM and FL.

The standards aim at consistency and comparability of the financial information which will result in enhancing the quality of the financial information. Setting accounting standards will also mitigate the information asymmetry in the stock exchange. The standard setters are suggested to complete establish the national standards and localize the standards to mitigate the information asymmetry and motivate the investors to invest their funds in the stock exchange. This will consequently benefit the investors and promote the capital market. However, the committee of standard setting should consider the costs of reinforcing the standards. The cost-effectiveness of the standards makes it necessary to implement these standards. Based on the findings of this study, the implementation of standards 30 and 31 impacts some of the financial ratios (P/E ratio and EPS) and it seems that implementing these standards is cost-effective and their implementation will enhance the quality of the financial information. To the best of our knowledge, this is the first study examining the impact of implementing standards 30 and 31 in Iran; however, the following suggestions are made for the future studies:

1. The other elements of the information content of earnings might be used in future studies about the accounting standards.
2. The impact of implementing accounting standards on the relevancy of the information might be further examined in future studies.
3. The future studies might examine the impact of implementing standards 30 and 31 on the information content of different industries.

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