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Discussing Aggregation Bias in Estimates of Conditional Conservatism using Ball, Kothari and Nikolayev Model

Mohammad Ramadan Ahmadi¹, Seyed Aziz Arman², Esmail Mazaheri³

Abstract: This study investigates the influence of the aggregation biases in the estimates of the Ball, Kothari and Nikolaev model (2013). In this regard we investigate the effects of two Aggregation biases: omitted-variable bias and truncated-sample bias. This study is done among firms that are listed in Tehran stock exchange between 1379 and 1394. The results of the panel data regression analysis for 1898 firm – year show the estimates of conditional conservatism based on Ball, Kothari and Nikolaev model are contaminated by aggregation bias and The aggregation effect causes these models to underestimate good-news timeliness and overestimate bad-news timeliness, thereby overestimating differential good-news and bad-news timeliness.

Keywords: *Aggregation bias, Bad-news timeliness, Conditional conservatism, Good-news timeliness.*

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The Effect of Dividend Payments and Bad News Hoarding on Stock Price Crash Risk with an Emphasis on Information Asymmetry

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Abstract: This study examines the impact of dividend payments and bad news hoarding on stock price crash risk with an emphasis on information asymmetry. In this regard, 123 companies were selected for the period of 2009-2014. Over investment is used to calculate bad news hoarding index. Also, Hong and Stein (2001) model is used to measure stock price crash risk. Panel data method is used to hypotheses test. The findings show that the dividend payment has a negative and significant effect on stock price crash risk. Also, the negative impact of dividend payments is intensified on stock price crash risk when the information asymmetry between managers and shareholders is high. The results show that bad news hoarding has a negative and significant effect on stock price crash risk and this impact is intense in companies with high information asymmetry. Thus, bad news hoarding followed negative stock returns in the form of stock price crash risk.

Keywords: *Bad news hoarding, Dividends payment, Information Asymmetry, Stock price crash risk.*

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Auditor Industry Specialization, Free Cash Flow and Earning Management through Related Party Transactions

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Abstract: Based on existing empirical evidence, related-party transactions are widely used to manipulate earnings for financial reporting. This study investigates the effect of auditor industry specialization and free cash flows on earnings management through related-party transactions as well as the moderating effect of auditor industry specialization on the relationship between free cash flows and earnings management through related-party transactions. Sample of the study includes 136 listed firms in Tehran Stock Exchange during 2010 to 2014, and panel data regression has been used to test the hypotheses. The results show an inverse relationship between auditor industry specialization and earnings management through related-party transactions. On the other hand, there is a direct relationship between free cash flows and earnings management through related-party transactions. However, auditor industry specialization mitigates the direct relationship between free cash flow and earnings management through related-party transactions.

Keywords: *Auditor industry specialization, Earnings management through related-party transactions, Free cash flow, Tehran stock exchange.*

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Product Market Competition, Related Party Transactions and Fee of Audit Services

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Abstract: Related-party transactions may violate the assumption of normal market transactions. This will distort the reliability and authentic reflection of accounting data, which will consequently aggravate the customer's business risk by auditor. Therefore, related-party transactions will probably increase the cost of audit services. On the other hand, audit costs will be lower for companies making related-party transactions. That is because auditors tend to have less difficulty in examining such transactions than those made with third parties. This study is intended to provide evidence about the effect of related-party transaction on the cost of audit services. It is also explored the interactive effect of product market competition on the relationship between related-party transaction and the cost of audit services. The research hypotheses are tested through data from 112 companies listed on the Tehran Stock Exchange (TSE) during 2007-2015. Moreover, the data are analyzed and the hypotheses are tested based on the multivariate regression model and panel data. The results indicates that there is a significantly positive relationship between related-party transactions and the cost of audit services. Meanwhile, product market competition does not mitigate such relationship.

Keywords: *Audit Fees, Audit Risk, Product Market Competition, Related Parties Transaction.*

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The Investigation of the Association between CEO Tenure and Financial Expertise to Audit Fee

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Abstract: The main purpose of this study is to investigate the relation between CEO tenure and financial expertise and audit fees. Using samples of firms (129 firms) in the Tehran Stock Exchange, the results show that, from 2008 to 2015 there's a positive significant relationship between CEO tenure and audit fees. That is, longer CEO tenure is associated with higher audit fees. Also, we find a negative association between CEO's financial expertise and audit fees. This finding shows that those firms the CEOs of which have financial expertise pay lower audit fees, compared to the other firms. In addition, the results of the research extra analysis shows that the simultaneous effects of financial expertise and CEO tenure have a significant negative on audit fee. This result indicates that CEO's financial expertise is one of the important factors for the auditors in evaluating the audit risk.

Keywords: *Audit fee, Audit risk, CEO financial expertise, CEO tenure.*

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Reviewing the Effectiveness of Earnings Quality Indices on the Power of Financial Distress Prediction Models

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Abstract: This study aims at comparing the earnings quality indices in both distressed and healthy firms and determining their effectiveness on the financial distress and the power of predicting models. Therefore, the information provided by 211 distressed firms selected by certain distress criteria and 211 healthy firms listed in Tehran Stock Exchange during 2006-2015 is used. In this study, twenty-seven financial indices and three earnings quality indices including “accruals quality”, “absolute value of abnormal accruals” and “earnings volatility” are applied. Findings reveal that earnings quality of the distressed firms is significantly less than the healthy ones. In addition, by increasing the earnings quality indices, the probability of encountering with financial distress position decreases. Finally, adding the earnings quality indices to the primary model based on financial indices enriches its predictability.

Keywords: *Earnings quality indices, Financial distress, Financial indices.*

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The Effect of Financial Status on Earnings Quality of Listed Firms in Tehran Stock Exchange

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Abstract: The present study examines the effect of financial status on earnings quality of listed firms in Tehran Stock Exchange. In this regard, Altman adjusted model for Iranian content is used to determine the financial status of Iranian listed firms. In terms of earnings quality, four accounting based earnings quality attributes include accruals quality, persistence, predictability and smoothness are tested. Using a sample of 119 firms for a period of 2002 to 2016, are run multivariate regression models on a panel data collection. The results shows firms that were ranked in healthy firms based on Altman adjusted model, have significantly higher accrual quality than bankrupt firms. However about persistence, predictability and smoothness, there were not any significant differences between healthy and bankrupt firms.

Keywords: *Accrual quality, Financial status, Persistence, Predictability, Smoothness.*

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