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Investigating the Effect of Accruals Quality and Disclosure Quality on Labor Investment Inefficiency

Abbas Aflatooni¹, Mahdi Khazaei²

Abstract: Information asymmetry and conflicts of interest between managers and shareholders lead to the phenomenon of moral hazard. Moral hazard means the managers may make some decisions (e.g. investment decisions) that do not meet the interests of shareholders. Inefficient investment decisions include over or under-investment in firms' labour. One way to avoid inefficient investment decisions is to improve the financial reporting quality; because the higher reporting quality increases the stakeholders' ability to monitor the managers' decisions such as decisions to determine the number of labor in firms. This study investigates the impact of two measures of financial reporting quality (accruals and disclosure quality) on labor investment inefficiencies (over and under-investment) in a sample of 107 firms listed in the Tehran Stock Exchange during 2003 - 2014. The research result show the increase in accruals quality and disclosure quality decreases the labor over and under-investments inefficiencies and eventually, companies employ more optimal levels of human resource.

Keywords: *Accruals quality, Disclosure quality, Labor, Over-investment, Under-investment.*

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The Impact of Income Smoothing on Future Earnings Coefficient Response with the Effect of Moderating Different Information Environments

Mohammad Imani Barandagh¹, Sohrab Abdi²

Abstract: The aim of this study is to determine the effect of the income smoothing on future earnings coefficient response with respect to the effect of the information environment. Future earnings coefficient response is used as a measure for evaluation of stock price information content which represents the relationship between current stock returns and future earnings. Information environment criteria include disclosure quality, firm size, number and accuracy of the management predicted earnings. To achieve the goal of the research, 115 firms listed in Tehran Stock Exchange during the years 2003 to 2014 were selected as sample. Furthermore, to test the hypotheses, multiple regression and panel data were used. The findings show that the income smoothing has a significantly negative effect on the future earnings coefficient response. Among the Information environment criteria, disclosure quality, number and accuracy of predicted earnings have a significantly positive effect on the future earnings coefficient response. The results show the strong information environment causes a significant enhancement in the future earnings coefficient response through the income smoothing.

Keywords: *Future earnings response coefficient, Income smoothing, Information environments.*

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A Study on the Effect of Cash Flows on the Gap between the Actual Leverage and Optimal Financial Leverage Ratio

Mohammad Osoolian¹, Elham Bagheri²

Abstract: The purpose of this paper is a study on the effect of cash flows on the gap between the actual leverage and optimal financial leverage ratio companies listed in Tehran Stock Exchange. In this regard, advanced econometric techniques such as partial adjustment model on panel data and Generalized method of moments were used to achieve a reasonable estimate of the impacts. In this paper, having access to financial information related to 101 firms in Tehran Stock Exchange were analyzed during the years 2008 – 2015. The results show that cash flows have an impact on the gap between the actual leverage ratio and optimal financial leverage. This deviation is higher at companies which have higher leverage ratio since they are facing more financial crisis. Furthermore, we find that firms with various growth and investment opportunities, or different size and profitability are moving toward their target levers with different speeds. In general, these findings are consistent with dynamic trade-off theory capability to describe corporation finance behavior.

Keywords: *Capital structure adjustment speed, Capital structure, Cash flow, Dynamic trade-off theory, Target leverage.*

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Investigating the Impact of Mandatory Audit Firm Rotation on Audit Fee and Audit Market Competition

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Mohammad Taghi Taghavifard³, Mohammad Farahmand Seyed Abadi⁴***

Abstract: This study aims to investigate the impacts of Mandatory Audit Firm Rotation (MAFR) on audit fees and audit market competition among firms listed on Tehran Stock Exchange (TSE). Since 2007 firms listed on TSE are not allowed to use services of any single audit firm for more than 4 consecutive years. We tested our hypotheses using multivariate regression analysis and mean comparison test. The research sample consists of 95 firms listed on TSE during the period 2006-2014. The results, in summary, revealed that MAFR has significantly more increase in audit fees in comparison with voluntary audit firm rotations and, therefore has imposed additional audit costs to firms. Moreover, there were no statistically significant changes in market share of high-quality ranked audit firms and those of lower quality ranks, before and after imposition of MAFR rule in Iran.

Keywords: *Audit fee, Audit firm's market-share, Audit market competition, Mandatory audit firm rotation.*

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The Effect of Audit Quality on Agency Costs and Information Asymmetry: Structural Equation Modeling Approach

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Abstract: In this study, the effect of audit quality on agency costs and information asymmetry has been examined. Among the accepted_firms 99 companies in Tehran Stock Exchange were selected for statistical samples from 1385 to 1392 in order to attain the research purposes. To measure the audit quality, observable variables such as the percentage of institutional investors, the type of audit opinion, audit size and the audit tenure were used. Furthermore, to measure agency costs variables like assets utilization ratio, the rate of assets revenue, Tobin's Q ratio and leverage ratio were used. The stock price volatility, earning forecast error, firm size, growth opportunities and the percentage of non-institutional investors to quantify the amount of variable related to information asymmetry from observable variables were analyzed. After verifying the acceptable process of the research measurement and structural models, the results indicate that the increase of audit services quality leads to a decrease in challenges over the separation of ownership and management including agency costs and information asymmetry. The results of the study also show that the increase of agency costs results in the increase of information asymmetry level.

Keywords: *Agency costs, Audit quality, Information asymmetry, Modeling approach, Structural equation.*

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The Usefulness of Predictive variable selection in Auditors' Opinion Prediction

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Abstract: Concerning the importance of predictor variable in prediction, in most of the research in the field of auditors' opinion the purpose of this research was rendering suitable models regardless of selection of optimal predictive variable and appropriate models of these selection. Therefore, in most of these research the predictive variables were chosen randomly and according to the prior research. The process of selecting variables could be used as a preprocess for omitting irrelevant variables and selecting optimal variables before creating the model. In this respect, this study investigates the usefulness of Correlation-Based Features Selection (CFS) in auditors' opinion prediction of listed companies in Tehran Stock Exchange. The classifiers including Artificial Neural Networks (ANN) and logistic regression were used. In overall, the experimental results of investigating 1214 firms during 2008 to 2015, confirmed the usefulness of CFS Method in predicting auditors' opinion. In other words, the application of the CFS method, increases the mean of accuracy in comparison with using all variables, and reduces the occurrence of type I and type II errors. Furthermore, the results indicated that ANN outperforms the logistic regression.

Keywords: *Artificial neural networks, Auditors opinion, Correlation-based features selection (CFS) method, Logistic regression.*

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The Impact of Organizational Culture on the Quality of Information Disclosure (Timeliness and Reliability)

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Abstract: Information disclosure and quality of its presentation is affected by a lot of environmental and organizational factors among which organizational culture is accounted as one of the most important ones. Responsible organization culture creates a dynamic information environment and promotes the quality of information disclosure. Accordingly, the aim of this study is to evaluate the impact of organizational culture on disclosure quality (timeliness and reliability). For this purpose, information of the organizational culture of companies listed on the stock exchange in 1393, through a Denison organizational culture questionnaire has been collected, and has been studied with the Score of disclosure quality that is announced by the Securities and Exchange Organization. The results show that some aspects of organizational culture (adaptability and mission) have an impact on disclosure quality. While, there is no relationship between involvement, versatility and quality of information disclosure and its indicators. These results can be beneficial to top managers in how to make organization's policies and improving the implementation of accountability procedures, and ultimately lead to increase in the transparency of companies' information.

Keywords: *Disclosure quality, Disclosure, Organizational culture, Reliability, Timeliness.*

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