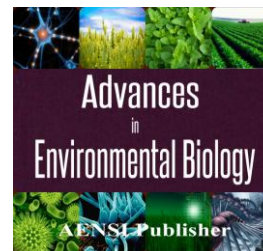




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### The Impact of Implementing Accounting Standards 30 and 31 on the Financial Performance of the Firms Listed on the Tehran Stock Exchange

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#### ABSTRACT

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. This study seeks to find whether the implementation of accounting standards 30 and 31 has affected the financial performance. To measure the financial performance, some financial ratios such as return on assets (ROA), return on equity (ROE), price to earnings ratio (P/E ratio) and earning per share (EPS) are used. Using a sample composed of 122 listed firms on the Tehran Stock Exchange and the data of a six-year period (2006 to 2011), the research hypotheses are examined. The findings reveal that implementing the standards 30 and 31 has significantly affected P/E, ROA and EPS; however, no significant impact is found for ROE.

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#### INTRODUCTION

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 [26]. 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 [33]. 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

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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 standards 30 and 31 change the financial performance of the firms. Because of using financial ratios in the study, the impact of implementing standards on the financial performance through the changes in some key ratios has been evaluated in this study.

#### *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 [27]. 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:*

Earning 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 emphasis 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.

#### *2.2. Theoretical Bases and Concepts of the Financial Performance:*

The occurrence of industrial revolution and its continuity in the 19<sup>th</sup> century, the foundation of great factories and the implementation of important plans such as railways require a considerable amount of money so that the needed fund is beyond the financial facilities of one or more investors and even the government. As a result, the first corporations were formed by using two great achievements of the industrial revolution including organizing and cooperating. The liability of the owners in this corporation was limited to their invested funds. This new frame was known as an appropriate solution for supplying the huge amounts of funds and distributing business risks. After this period, the authority and power of decision making in the corporations were held by those managers with conflict of interests with the external groups and shareholders. This conflict of interest was resulted from the segregation of ownership and management. The recognition of the problems associated with the segregation of ownership and management has been much debated for quite an extensive period. Some measures have been defined to evaluate the financial performance in order to balance the conflict of interests [19]. The evaluation of the financial performance has been much considered by shareholders, investors, creditors, banks and other institutions. By segregating the ownership from management and after the emergence of the agency theory, the performance evaluation has been introduced as one of the most important subjects in accounting [20]. Accounting is an efficient instrument for providing useful information for the decision making and judgment of the users of the financial statements. The core of many discussions supporting the existence philosophy of the accounting knowledge is the emphasis on the judgment and decision making of the users. Based on the theoretical bases of accounting and financial reporting of Anglo-Saxon countries and Iran, the investors are known as the main users of the financial statements. The investors seek to find the information by which they could evaluate the expected risk and return [11]. The present study is mainly concentrated on the evaluation of the financial performance of the firms. The accounting information system results in the financial reports and the most

important item of this report is known as the reported earnings. Relying on the accounting earnings, the firm's performance is evaluated and the predictions are made. The directors also use earnings to plan for future. Based on the accounting model of financial performance evaluation, the firm's value is calculated by multiplying two figures. The first figure is the profit of the company and the second figure is the coefficient of converting profit into value. As mentioned before, in the accounting models of performance evaluation, the firm's value is a function of various measures including ROA, ROE, EPS and P/E [29]. Accounting earnings is the most traditional measure of performance evaluation which has essential significance for the investors, shareholders, managers and creditors. Accounting earnings, calculated by accrual basis, is one of the most important measures of performance evaluation based on Lehn and Makhija [18], Chen and Dodd [6] and Worthington and West [34]. These measures are easily available and they might be easily calculated by a wide range of the users of financial information. The prior studies have also shown that accounting earnings and its information give useful information to the users and are very effective in making decisions [3].

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

- *Return on Assets:*

Return on assets is an indicator of how profitable a company is relative to its total assets. This ratio indicates the efficiency level of the management in utilizing the present resources in earning profits.

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

ROA might be also defined in terms of Dupont formula as follows:

$$\frac{\text{Net Income}}{\text{Total Assets}} = \frac{\text{Net Income}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}}$$

As shown in the above formula, ROA increases as the gross margin or total assets increase. However, this ratio depends on the industry type. For example, the retailers have higher potential for increasing the flow rate of total assets. It must be mentioned that the gross margin of an industry might be very variable because it is a function of sales, cost control and prices. Consequently, the company which intends to increase the return on assets might identify the effective factors by using Dupont formula [22].

- *Return on Equity:*

This indicator measures the rate of return on the ownership interest of the common stock owners.

$$\text{Return on Common Stock Owners} = \frac{\text{Earnings of common stock owners}}{\text{Average equity of common stock owners}}$$

ROE can be also calculated by using ROA and debt ratio as follows [19]:

$$\text{Return on common stock owners} = \text{ROA} \times \frac{\text{Ratio of owner's equity}}{\text{total Assets}}$$

$$\text{Return on common stock owners} = \text{ROA} \times \frac{\text{Equity of common stock owners}}{\text{Equity of common stock owners} + \text{Debt ratio}}$$

- *Price-Earnings Ratio:*

Some ratios evaluate the opinion of the shareholders about the company. P/E 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 [25]:

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

- *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 [15]:

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

### 2.3. Research Background:

Nikoumaram and Fathi [23] 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 [9] 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 [35] 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* [21] 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 [28] 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.

Chidambaran [7] examined the relationship between corporate governance and financial performance. He found that the positive changes in the corporate governance elements result in better financial performance. 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. Christensen *et al* [8] 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* [4] 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 [24] 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 [17] 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 [10], 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.

### 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 financial performance. The research model and the variables and their calculation methods are described below.

$P_{i,t}$

$$E_{i,t}, ROA_{i,t}, ROE_{i,t}, EPS_{i,t} = \beta_1 \text{STANDARD}_t + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{AGE}_{i,t} - \text{LIST}_{i,t} + \varepsilon_t$$

Where in it;

STANDARD<sub>t</sub>: This variable is equal to one when the standards 30 and 31 are efficient and zero, otherwise.

**P<sub>i,t</sub>**

**E<sub>i,t</sub>**: This is an indicator of P/E ratio and is a dependent variable.

EPS<sub>i,t</sub>: This variable shows the earnings per share and is calculated by dividing total earnings by the number of the stocks.

ROA<sub>i,t</sub>: Return on assets for a financial period calculated as follows:

$$ROA_{i,t} = \frac{Earning_{i,t}}{Total\ Assets_{i,t}}$$

ROE<sub>i,t</sub>: Return on the equity for a financial period calculated as follows:

$$ROE_{i,t} = \frac{Earning_{i,t}}{Equity_{i,t}}$$

SIZE<sub>i,t</sub>: 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<sub>i,t</sub>: 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 stopped their operations or changed their fiscal 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 ROA.

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

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

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

### 4. Research Findings:

#### \* Analyzing the first hypothesis:

The first hypothesis examines the impact of implementing accounting standards 30 and 31 on ROA. 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.

**Table1:** Results of tests used to determine the methods used for the first hypothesis.

| Index Test    | Statistics | Sig. level | Result         |
|---------------|------------|------------|----------------|
| F Limer       | 9.74       | 0.00       | Panel data     |
| Breusch-Pagan | 607.34     | 0.00       | Random effects |
| Hausman       | 27.71      | 0.00       | Fixed-effect   |

The panel data approach requires the inequality of the variances. Based on the significant impact of this issue on the estimation of the standard deviation of the coefficients and the inferential statistics, it is necessary to examine the inequality of the variance. Table 2 represents the results of testing the inequality of the variances on the residuals of the used model. Likelihood ratio is employed to test the equality of the variance in panel data. The value of  $\chi^2$  shows that the null hypothesis should be rejected.

**Table 2:** Results of testing the equality of the variances for the first hypothesis.

| Index Test       | Statistics | Sig. level | Result                 |
|------------------|------------|------------|------------------------|
| Likelihood ratio | 721.99     | 0.00       | Unequality of variance |

General least squares (GLS) method is a way of resolving the problem of inequality of the variance. To estimate the equation, GLS method is used and the results of the model estimation are represented in table 3.

**Table 3:** GLS model for the first hypothesis.

| $ROA_{i,t} = \beta_0 + \beta_1 STANDARD_t + \beta_2 SIZE_{i,t} + \beta_3 AGE\_LIST_{i,t} + \varepsilon_t$ |              |                |             |                |
|---|--------------|----------------|-------------|----------------|
| Sig. level  | Statistics z | Std. deviation | Coefficient | Index Variable |
| 0.00  | -4.33        | 0.297737       | -1.290467   | Standard       |
| 0.00  | 8.18         | 0.1277543      | 1.045319    | SIZE           |
| 0.05  | -2.4         | 0.0007418      | -0.0017767  | AGE-LIST       |
| 0.00  | 0.29         | 0.0971093      | 0.0279933   | Intercept      |
| F-statistics : 13.14(0.00) $R^2$ : (0.06)   |              |                |             |                |

As shown in table 3, it is concluded that implementing standards 30 and 31 has significant negative impact on P/E ratio. The findings of data analysis represent that there is a negative relationship between these two variables and this coefficient is -1.3; while the significant level of this variable is 0.00 which is significant at the 95 percent level. In terms of the control variables, both variables of SIZE and AGE-LIST are significant. The findings also reveal that SIZE has a positive relationship with ROA at the 95% level. It can be then concluded that this variable is significant. On the other hand, AGE-LIST is significantly associated with ROA. As a result, F statistics show the general validity of the model. Based on table 3, 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  $R^2$  of the model is 6% which states that 6 percent of the changes in the dependent variable are explained by independent and control variables.

- *Analyzing the second hypothesis:*

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

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

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

Based on table 4, the calculated F is 1.17 and the significance level is 0.123 ( $p > 0.05$ ) and it is concluded that the calculated F Limer confirms that the null hypothesis should be rejected and the pool data approach is significant.

**Table 4:** Results of tests to determine the method used for the second hypothesis.

| Index Test | Statistics | Sig. level | Result    |
|------------|------------|------------|-----------|
| F Limer    | 1.17       | 0.123      | Pool data |

The results of testing the hypothesis by using Stata software is represented in table 5.

**Table 5:** Results of pool data for testing the second hypothesis.

| $ROE_{i,t} = \beta_0 + \beta_1 STANDARD_t + \beta_2 SIZE_{i,t} + \beta_3 AGE\_LIST_{i,t} + \varepsilon_t$ |              |                |             |                |
|---|--------------|----------------|-------------|----------------|
| Sig. level  | T statistics | Std. deviation | Coefficient | Index Variable |
| 0.925   | -0.09        | 4.45819        | -0.4218573  | Standard       |
| 0.00  | 4.15         | 0.4016331      | 1.667086    | SIZE           |
| 0.302   | 1.03         | 0.1518568      | 0.1570043   | AGE-LIST       |
| 0.580   | 0.55         | 21.92377       | 12.12694    | Intercept      |
| $F$ : 59.11(0.00) $R^2$ : (0.19)  |              |                |             |                |

According to table 5, it is found that implementation of standards 30 and 31 has no significant impact on ROE. In terms of the control variables, only SIZE is found to have a positive relationship with ROE at the 95 percent and it can be argued that this is a significant relationship. As a result, F statistic shows the general validity of the model. Based on table 3, 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  $R^2$  of the model is 19% which states that 19 percent of the changes in the dependent variable are explained by independent and control variables.

- *Analyzing the third hypothesis:*

The third hypothesis examines the impact of implementing accounting standards 30 and 31 on P/E ratio. 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 2.94 and its significance level is 0.000 and shows that the null hypothesis should be rejected 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 6:** Results of the used tests to determine the method for the third hypothesis.

| Index Test    | Statistics | Sig. level | Result         |
|---------------|------------|------------|----------------|
| F Limer       | 2.94       | 0.00       | Panel data     |
| Breusch-Pagan | 77.78      | 0.00       | Random effects |
| Hausman       | 3.91       | 0.2717     | Random effects |

The results of testing the hypothesis by using Stata software is represented in table 6.

**Table 7:** Model of random effects for testing the third hypothesis.

| $\frac{P_{i,t}}{E_{i,t}} = \beta_0 + \beta_1 \text{STANDARD}_i + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{AGE\_LIST}_{i,t} + \varepsilon_i$ |              |                |             |                |
|--|--------------|----------------|-------------|----------------|
| Sig. level   | Z statistics | Std. deviation | Coefficient | Index Variable |
| 0.00   | 5.87         | 0.124783       | 0.732177    | Standard       |
| 0.168  | -1.38        | 0.0070439      | -0.0097157  | SIZE           |
| 0.017  | -2.4         | 0.0007417      | -0.0017767  | AGE-LIST       |
| 0.773  | 0.29         | 0.0971093      | 0.0279933   | Intercept      |
| $F : ( ) 11.12 ( 0.000 ) R^2 0.06 :$   |              |                |             |                |

Based on table 7, it can be concluded that the implementation of accounting standards 30 and 31 has positive significant impact on P/E ratio. The results of data analysis showed that there is a positive relationship between these two variables. The coefficient of this variable is 0.07 which is significant at the 95 percent level. It is found that AGE-LIST is negatively associated with P/E ratio at the 95 percent level. 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 enough. The findings also reveal that  $R^2$  of the model is 6% and it means that 6% of the dependent variables is explained by independent and control variables.

- *Analyzing the fourth hypothesis:*

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

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

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

Based on table 8, the calculated F is equal to 3.03 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 fixed-effect approach. Generally, the fixed-effect panel data is used to estimate the equation.

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

| Index Test    | Statistics | Sig. level | Result         |
|---------------|------------|------------|----------------|
| F Limer       | 3.03       | 0.00       | Panel data     |
| Breusch-Pagan | 67.77      | 0.00       | Random effects |
| Hausman       | 3.91       | 0.00       | Fixed- effect  |

Table 9 represents the results of testing the inequality of variance for the fourth hypothesis. The value of  $\chi^2$  shows that the null hypothesis of equality of the variance is rejected and the variances are unequal in the model.

**Table 9:** Results of testing the equality of variance for the fourth hypothesis.

| Index Test       | Statistics | Sig. level | Result                 |
|------------------|------------|------------|------------------------|
| Likelihood ratio | 12281.66   | 0.00       | Unequality of variance |

Consequently, GLS method is used to estimate the equation related to the fourth hypothesis. The results of the model estimation are shown in table 10.

**Table10:** GLS method for the fourth hypothesis.

| $EPS_{i,t} = \beta_0 + \beta_1 STANDARD_t + \beta_2 SIZE_{i,t} + \beta_3 AGE\_LIST_{i,t} + \varepsilon_t$ |              |                |             |                |
|---|--------------|----------------|-------------|----------------|
| Sig. level  | Z statistics | Std. deviation | Coefficient | Index Variable |
| 0.001   | -3.43        | 18.28774       | -62.65918   | Standard       |
| 0.00  | 6.54         | 5.854457       | 38.26955    | SIZE           |
| 0.00  | 7.87         | 0.5583409      | 4.395946    | AGE-LIST       |
| 0.003   | -2.92        | 79.60638       | -232.6351   | Intercept      |
| $F : 18.1(0.00) R^2 : (0.08)$   |              |                |             |                |

The results in table 10 show that the implementation of accounting standards 30 and 31 has significant negative impact on EPS. The findings of data analysis indicate that there is a negative association between these two variables and this coefficient is -62.65; the significance level is 0.00 which is significant at the 95 percent level. In terms of the control variables, SIZE and AGE-LIST are found to be significant. Based on the findings in table 10, 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 achieved through different sources. The transparent financial statements are reliable, comprehensive, related 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* [12](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 financial performance. 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 financial performance in this study, ROA, P/E ratio, ROE and EPS are used to analyze the required data. 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, ROA and EPS; however, no significant impact was found for ROE.

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 cause mitigating the information asymmetry in the stock exchange. The standard setters are suggested to complete the project of 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 principle of cost-benefit should be considered in implementing the standards. Based on the findings of this study, the implementation of standards 30 and 31 impacts some of the financial ratios and it seems that the costs of implementing these standards exceed the benefits and their implementation will enhance the quality of the financial information. To the best of our knowledge, this is the first study seeking this impact in Iran; however, the following suggestions are made for the future studies:

1. The other elements of the financial performance 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 financial performance of different industries.

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