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Examining the Relationship between International Accounting Reporting Standards and Corporate Profits in the Companies listed in Tehran Stock Exchange

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ABSTRACT

The purpose of the study was to examine the relationship between international accounting reporting standards and corporate profits in companies listed in Tehran Stock Exchange. The population was the companies listed in Tehran Stock Exchange. Accordingly, 117 companies were selected as the sample after applying the limitations. The financial period of the study was from 2010 to 2019. Eviews software and logistic regression method were used to test the hypotheses. The findings indicated a significant relationship between international accounting reporting standards and corporate profits in companies listed in Tehran Stock Exchange.
Keywords: International standards, accounting reporting, corporate profit.

Introduction

In the past, financing was accepted only at the national level. Companies intended to raise capital provided more of the resources they required from model suppliers (e.g., banks, investors, and the stock market). In these cases, capital funders and receivers were both in the same country and familiar with the basics of financing in that country. Global trade is very different nowadays.

A set of elements like the removal of barriers and trade barriers, the liberalization of financial markets, and the advances in technology have all ended in the creation of a very different trade environment so that capital markets around the world. Investors look for new investment opportunities, go beyond the geographic boundaries of the countries and the national limitations have been removed in the capital markets. The increasing role of international trade in the economy, as well as the increase in capital flows between various sectors, has been enhanced by the role of international financial markets in financing. Despite these changes in the business environment, the inadequacy of regional and national approaches to the management of capital markets is felt, and to deal with these shortcomings, the global economy needs internationally accepted standards. The globalization of financing approaches is the start of the move towards the globalization of financial reporting standards, as the existence of large-scale instruments in compliance with different international standards makes trading in the capital market difficult. However, if investors and investees are scattered around the world, there would be no need for a separate set of accounting standards for each country (Mackintosh, 2014). Moreover, international accounting is an academic major established in the last few years. Furthermore, international accounting raises good and interesting issues among economists for presenting future long-term issues arising from the practical and scientific boundaries. From the accounting point of view, it is necessary to face these obstacles to integrate international accounting, (Ghio & Verona, 2015). Additionally, Rahdeh and Welberg (2003) stated the global accounting coordination and that this would create a gap for investors and companies to understand the basics of accounting, resulting in a non-national unit for reporting, solving problems and enforcing internationally accepted laws for accounting. One such unit or body is the board for compiling international accounting standards, which, in the public interest, sets international standards for the provision of high-quality, highly comparable information and financial arrangements. International governance standards, however, are the language of definition, interpretation, and preparation of financial statements worldwide (Leuz, 2010).

The accounting profit is the difference between costs and revenues based on the accounting principle where costs are the same as the internal cost of doing things, yet the economic profit is the difference between costs and revenues where the cost involves objective work costs (explicit costs) and implicit costs. Implicit costs are payments necessary to secure the financial resources of the company and are called capital costs. In any business, the person first provides the capital and then invests. Providers of this capital may be the same business, entrepreneurs, banks, or shareholders (Soleimani and Memarian, 2012).

The rights of the shareholders are the efficiency of the company in creating net profit for shareholders. Indeed, this ratio expresses the net profit of the enterprise for each riyal of shareholders' investment (Pourabdollahian and Mazroui, 2015).

Given the above, the purpose of the present study is to examine the effect of international reporting standards on earnings and equity in companies listed in Tehran Stock Exchange. Now this question raises: "What is the relationship between international accounting standards for earnings and equity in companies listed in Tehran Stock Exchange?"

Theoretical framework of the study

Accounting profit is the difference between expenses and income based on the accounting principle where expenses are the same as the internal cost of doing things, but economic profit is the difference between expenses and income, where the cost is objective work costs (implicit costs) and implicit costs. Implicit costs are the payment that are necessary to secure a company's financial resources also called capital costs. In any business, the person first provides the capital and then invests. The suppliers of this capital may be the same business owners, entrepreneurs, banks, or shareholders (Soleimani and Memari, 2012). The rights of the shareholders are the efficiency of the company in creating net profit for shareholders. Indeed, this ratio expresses the net profit of the enterprise for each riyal of shareholders' investment (Pourabdollahian and Mazroui, 2015). The International Accounting Standards Board (IASB) is an independent body in London with 15 members from different countries and has been working since 2001. It is founded by large accounting firms, private financial institutions, and several other professional organizations in the field of accounting. Up to now, more than 120 IFRS agents have been needed to report their companies financially. By accepting IFRS, a company can offer its financial statements like foreign competitor companies. Thus, there is comparability between the information of these companies and besides, those parent companies whose subsidiaries are in other computers that have accepted IFRS will be able to have or leave the accounting language. Using IFRS can be beneficial for companies that intend to increase their foreign investment (Ahmad et al., 2013).

International financial reporting standards

International financial reporting standards are regulated by the IASB, which is established by the London-based auditing authority. The purpose of the stated board is to enact regulations allowing the companies around the world to use uniform financial reporting. From 1973 and 2000, international standards were established by the international organization for standardization, the International Accounting Standards Committee (IASC). The committee was established in 1973 by professional accountants from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, England, Ireland, and the United States. During this period, the regulations of IASB were called "International Accounting Standards." From April 2001, this legislative task was delegated to the new organization of the IASB. IASB published its rules and regulations as the International Financial Reporting Standards. Although the rules laid down by the IASB were still accepted by the new body, IASB has more financial resources, more professional staff, and more independence than the IASC and states its formal purpose as:

Unified sets of global comprehendible and implementable accounting standards framework in the public interest that ensures high quality information, quality and comparison framework in financial statements and other financial statements to help global capital markets activists and other users making economic decisions (Cordazzo, 2008).

The necessity of applying financial reporting standards

In the past, financing used to be implemented only at the national level. Companies that decided to raise capital provided most of the resources they needed from model suppliers (e.g., banks, investors, and other stock markets). In these cases, financiers and fundraisers were both in the same country and familiar with the basics of making financial statements in that country. World trade is very different today. A combination of factors such as the removal of trade constraints, the liberalization of financial markets, and advances in technology have all led to a very different business environment in which capital markets around the world are interconnected and investors go beyond the geographical boundaries of the countries in the world in search for new investment opportunities, and national restrictions on capital market participants have been lifted. The increase in the role of international trade in the economy, as well as increasing the flow of capital between various countries, has enhanced the role of international financial markets in financing (Daske et al., 2008).

In spite of these changes in the business environment, the inadequacy of regional and national approaches to capital market management is felt, and the global economy needs standards that are internationally accepted to address these shortcomings. The globalization of securities financing approaches is the beginning of the move towards the globalization of financial reporting standards because the existence of many entities in various international standards makes trading in the securities market a serious challenge. However, if the barriers to investors and investees are scattered around the world, there will be no need for a separate set of accounting standards for each country (Maigoshi, 2014).

Given this necessity, the IASC was first established in 1973 by international librarians from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland, and America. At this time, the regulations enacted by the IASB were called International Accounting Standards. In 2001, the IASB replaced this committee to develop international financial reporting standards. The editing in this field was entrusted to this new organization. Although the rules laid down by IASC were still accepted by the new organization, the IASB has better financial resources and less professional staff than the IASC. The board's first standard was issued in 2003 and at least 19 countries met their international standards. As of that time, approximately 70 countries (such as European Union countries) need for all listed companies to meet international financial reporting standards at the time (Palea, 2014).

The IASB sets out its formal purpose as follows: to provide a comprehensive set of global auditing standards that are comprehensible and applicable in the public interest that provides high quality, transparent and comparable information in financial statements and other financial statements guarantees to the global market participants of dams and other assets of those who receive economic damages (Sedaghat Galoshkalami, 2019).

Profit

Profit is one of the significant indices of measuring activities or economic units. Scholars and researchers have examined its methodological approaches in the framework of scientific results, measured the strengths and weaknesses of the perceptions, and increased its accuracy and capabilities by working on it (Thervin, 2011).

The assumption that profits as the main source of information is specific to the corporate has been proven by empirical studies (Lio et el., 2002) and proven that investors rely on profits more than any other criteria (such as dividends, cash flows or other forms of profit such as pretax profit, interest, and depreciation). Moreover, the results of a study show that they consider blockchain managers to be the criterion of consideration for investors and investors (Graham et al., 2003).

Securities analysts, corporate executives and investors pay close attention to the profits reported by the company. Profit predictions have been steadily declining in financial statements, and revisions to financially distorted forecasts are ongoing. Management is strongly interested in the growth of profits, as its rewards are tied to the company's profits. The news that the company's success in reaching the expected profit will cause its stock price to fall. Companies that can meet the expectations of investors will achieve goodwill among them. With the expansion of capital markets and the expansion of corporate stock trading, the scope of financial reporting has become increasingly broad and the market sensitivity to the profitability of companies remains (Kurdistani and Bigilengroudi, 2010).

Penman (2003) argues that the price that investors pay to buy stocks is to buy the company's dividends. However, stakeholders forecast the company's profit to value stocks, usually the market focuses on the company's profit as a general criterion, and if there is an error in forecasting the profit, the market reacts to it immediately. Given the significance of profit, accounting data-based valuation models have formally focused on profit.

Investors usually search for stocks of companies with high profitability and are willing to buy these stocks at a higher price. As it is expected that the profit will eventually crystallize in the form of cash flows, the companies that can generate stable and continuous profit are considered to be able to generate cash flows of distribution among shareholders as foreign exchange dividends.

Companies that report high profitability to investors will have a positive effect on their stock prices. To the company, higher stock prices increase the market value of the company and reduce its capital cost (Soleimani and Memarian, 2012).

Given the above, the profitability of profit has always been emphasized in the financial reporting reports, including the statement made by the Statutory Board of the Financial Auditing Standards Board (1978), stipulating that:

“Investors, lenders, and others use profit and its components in different ways to depict an outlook for cash flows from investments or lending.”

“The focus of financial intelligence is information on the performance of an entity provided within the criteria of profit and its components.”

Literature review

In a paper, Vahedi and Jahanshad (2020) examined the effect of using financial reporting international standards in line with the Central Bank's instructions on financial indices and earnings management in the banks. To test the hypotheses, the method of comparison tests of the mean of the two communities and Mann-Whitney was used. Findings show that the application of international accounting standards on profit management has a negative and significant. Considering the significance of international financial reporting standards, the move of banks to implement these standards is necessary as it leads to financial statement transparency, increased international credibility, reduced financial market presence costs, and facilitated international communications. The accuracy of Sedaghat Galeshkalami (2019) in an IFRS paper examined the benefits, challenges, and implementation strategies of its implementation in Iran. In this study, the opinions of 34 experts were used according to the methods used and the scope of the study. Delphi fuzzy method was used to identify the benefits, challenges, and implementation strategies of implementing international financial reporting standards in Iran. Then, challenges and solutions were prioritized using Fuzzy DEMATEL technique. In the solutions section, the solution is to make the necessary coordination with institutions such as the tax affairs, the audition organization, the stock exchange, Iranian Association of Certified Public Accountants and so on, in the challenges section, challenge the extent and nature of government intervention in the economy and finally in the benefits section, the promotion of financial reporting quality ranked first among other benefits.

In a paper, Key and Kim (2020) examined the international standards on financial reporting and accounting quality in Korea. Several variables of income management and timely recognition of losses as indices were used for the quality of accountancy. The reports of the IFRS adoption process in Korea showed a strong commitment to its successful and prosperous implementation, and we predict and find that the quality of its reputation has increased since the adoption of the IFRS. These results extend and confirm the initial research showing that IFRS has positive effects on the Korean capital markets and the accounting system.

Suryantoa and Komalasari (2019) examined the effect of compulsory adoption of International Financial Reporting Standards (IFRS) on supply chain management in Indonesia dairy. Data was collected using a cluster sampling technique of an area of a dairy company in Indonesia. Only those employees who were directly associated with to the supply chain and accounting activities were selected. Structural equation modeling (SEM) was used to test the hypotheses. The findings indicated a significant relationship between international financial reporting and supply chain management. The aspects of supply chain accounting quality, value relationship (information contents), revenue management and timely recognition of losses, had a positive relationship with supply chain management. Better implementation of international financial reporting is the key to improving supply chain management.

Arshad et al. (2016) examined the effect of international reporting standards on earnings and equity of the listed companies listed on the US Stock Exchange. The results showed that International Accounting Reporting Standards affect earnings and equity.

Ernst & Young (2010) studied the effect of financial reporting standards on financial statements. The results show that the income tax and employee benefits tax increase the total debt, while financial instruments were a common reason for the net positive effect on total assets and equity of reporting entities.

Research hypotheses

There is a significant relationship between international accounting reporting standards and corporate profits in companies listed in Tehran Stock Exchange.

Operational definition of the variables

International Financial Reporting Standards (IFRS) is a dummy variable if the financial statements are based on IFRS and are equal to 1, otherwise the statement is equal to 0 (Arshad et al., 2016.)

Accounting profit (NOPAT) is the calculated net profit after deduction of the corporates' taxes using the information of the financial statements

Corporate size (SIZE) is calculated based on the natural logarithm of the asset.

Financial leverage (LEV) is measured based on the total debt on the asset.

Methodology

The study on was applied in terms of purpose and correlational of causal type in terms of the method where panel regression was used to data analysis. The research design was quasi-experimental using post hoc (through past information). Post hoc method is used when the researcher examines the incidents after they happen. Moreover, there is no possibility to manipulate the independent variables.

Sampling and sample size

The following conditions were considered to select the sample, where the remaining companies were examined after the elimination of these limitations. These conditions were:

1. Company financial information was available for the research period.

2. Their fiscal year ends in March 20.

3. Be present on the stock exchange during the period examined.

4. It should not be an investment and financial intermediary company.

5. They had to be accepted in the stock exchange organization since 2010.

The companies surveyed from 2010 to 2019 were considered.

After applying the limitations, 117 companies were selected as the sample.

Data test analysis method

After the researcher collected and classified the data, he/she must start the next stage of the research process, known as the data processing stage. This stage is very important in research, as it shows the great efforts and efforts of the past. At this step, the researcher examined the information and data to test the hypothesis and evaluated it. In the reflection stage, what is important is that the researcher should refine the information and data in the direction of the research goal, answering the research questions and evaluating the research hypotheses. At this stage, Excel software was used to classify the data. Moreover, Eviews software was used for data analysis and hypotheses testing after data classification and logistic regression method was used.

Analysis of the variables

Descriptive statistics

The statistics of the variables are given in Table 1.

Table 1: Descriptive statistics of the variables

Variables	Mean	SD	Skewness	Kurtosis	Min.	Max.
IFS	0.491	0.500	0.034	1.001	0.000	1.000
NOPAT	0.654	0.275	1.576	9.048	0.065	2.383
SIZE	13.73	1.285	0.664	4.403	10.504	19.009
LEV	0.183	0.259	1.762	7.853	-0.428	1.648

Stationarity of the variables

Considering the balance of the panels and as the number of panels is large, whereas the number of time periods is constant. Levin–Lin–Chu test were used in the study to test the stationarity of the variables. As the significance level for Levin–Lin–Chu and Phillips tests for all variables was less than 0.05 error level, one can conclude that the variables are stationary level; thus, as the variables are significant in the regression mode, there will be no false regression (Table 2.)

Table 2: The stationarity of Levin–Lin–Chu test

Levin–Lin–Chu test		**Variables**
Sig.	**Statistic**	
0.000	-7.03554	**IFS**
0.0441	-1.06204	**NOPAT**
0.0015	-2.95841	**SIZE**
0.0174	-2.11094	**LEV**

Testing the hypothesis

Hypothesis: There is a significant relationship between international accounting reporting standards and corporate profits in companies listed in Tehran Stock Exchange.

As the dependent variable is a virtual variable (zero and one), the following logistics regression model was used to test the research hypothesis.

IFRS= $\beta 0 + \beta 1NOPAT + \beta 2SIZE + \beta 3LEV + \varepsilon$

Likelihood-ratio (LR) test is used to determine the significance of the whole model. As the significance level obtained for this test was less than 0.05, it is concluded that the model is significant. Hosmer-Lemeshow test was used to evaluate the fit of the above estimated model. As the significance level of the Hosmer-Lemeshow test is greater than 0.05, it was concluded that the estimated model has a good fit (The significance level greater than 0.05 in Hosmer-Lemeshow statistics shows that the good model fit. R^2 McFadden statistic for the model is 0.49. Based on R^2 McFadden statistic, which examines the model goodness of fit, (The closer this index is to one, the greater the degree of conformity of the model with reality, and in other words, the better the fit; and conversely, the closer the value of the index to zero, the lower the goodness of the fit), it can be concluded the model also has a good fit. Moreover, the other model fits statistics such as Cox-Snell, Cox and Negelkerke show the proper fit of the model too (Table 3).

Table 3: Model fit indices

Statistic	**Statistic value**	**Sig.**
Lemeshow & Hosmer	3.9461	0.8620
LR statistic	351.6254	0.0000
McFadden R^2	0.4926	-
Snell & Cox R^2	0.495	-
Negelkerke	0.660	-

To test the research hypothesis, using the information in Table 4, one can state: The value of accounting profit coefficient was 4.128154. Given the significance level of the coefficient of this variable, which is less than the error level of 0.05, a significant relationship is concluded between international standards of reporting on the profits of companies listed in Tehran Stock Exchange. Thus, based on the stated points, one can conclude that the research hypothesis that “there is a significant relationship between international accounting reporting standards and company profits in companies listed in Tehran Stock Exchange” is confirmed with 95% confidence.

Table 4: The coefficients of the variables and the significance test of the coefficients

Independent variables	IFS dependent variable		
	Coefficient value	Z statistic	Sig.
INOPAT	-1.02E-07	-4.128154	0.0000
SIZE	1.780315	12.47483	0.0000
LEV	-0.904724	-3.256346	0.0011
C	-9.749541	-11.80128	0.0000

Conclusion and recommendations

Given the significance level of the coefficient of this variable, which is less than the 0.05 error level, one can conclude that international accounting reporting standards have a significant effect on the corporate profits of companies listed in Tehran Stock Exchange. As international reporting standards have a significant effect on the profits of companies listed in Tehran Stock Exchange, it is recommended that investors while investing pay more attention whether the reporting standards have been met or not. Different groups, such as shareholders, creditors, analysts, and managers are suggested pay attention to the results of this study. As the attraction of foreign investors after Joint Comprehensive Plan of Action calls for alignment with the international financial systems and the reduction of the differences between the countries by applying international similar standards and approaches as a common language besides the announced and set requirements by the agencies in question, it is one of the most important reasons for emphasizing international reporting standards. Accordingly, corporate executives are advised to make the best use of international financial reporting standards in accordance with the guidelines. In addition, the Securities and Exchange Commission should adopt rules and regulations that allow companies to apply international reporting standards as much as possible to determine the real value of companies, to disclose their information and to better understand their assets. They must be careful because this would lead to the scrutiny of foreign investors. Considering the effect of using international standards on the given loans, the companies are suggested giving significance of this issue and considering its effects on the corporate profits, the auditors, analysts, the Securities and Exchange Commission, and investors are suggested value profit in the corporates in decision making and analyses based on profits.

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