

Research Article

ADMINISTRATION COSTS OF THE ORGANIZATION

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ABSTRACT

Review

In this paper, theoretical and empirical issues in estimating the weighted average cost of capital Mrbtt Company and then review several methods for estimating the weighted average cost of capital of the two companies, General Electric, and Microsoft will be reviewed. Conventional methods for estimating the weighted average cost of capital due to the assumptions used in estimating the cost of equity capital may lead to different approximations of the correct judgments and analyze the sensitivity of the effort to estimate the cost of capital applications the accounting and finance it is necessary to participate. The purpose of this study was to evaluate the relationship between the quality of financial reporting quality and investment, too, to inform investors in making investment decisions with respect to the usefulness of financial reporting quality and the quality of financial reporting is to inform the professional accountancy bodies. The Research indicates that various estimates of the weighted average cost of capital leads to different signs of the evaluation is an important basic problem arises in this case reveal the sensitivity of the model to evaluate the method weighted average cost of capital may be appropriate.

Keywords: *Cost of Capital, Cost Management, Weighted Average Invested Capital*

INTRODUCTION

Companies and economic organizations, continues to face many investment opportunities and rational decision-making requires an investment to be optimized. Indeed, given the limited resources should be invested in each business unit and its work is done, but the main problem of selecting investment opportunities, plans and decisions to be made by the managers of the business units is based on the personal interests being carried out.

Hence, the Units for investment in various projects, to limit the amount of investment due to resource constraints, consideration (teacher and Hsarzadh, 1387). This, through methods such as net present value of project evaluation is done.

Under this method, investments in one or more projects that would be justified if the net present value of the project is positive. So, accepting negative net present value projects, leading to over-investment and investment is therefore not optimal (Verdi 7, 2006). One of the factors contributing to the creation of over-investment, cash flow Zaddr business unit.

Hence, in this study, it is predicted that the quality of financial reporting quality, can be caused by over-investment of free cash flow to reduce companies. This research can enhance the knowledge of investors and other users of financial reporting quality and to help investors select investment projects.

Theoretical

The Theoretical Framework of the Concept of Cost of Capital

The concept of a company's cost of capital is the opportunity cost of capital to invest in the company by estimating the weighted average cost of capital of the company tries to quantifying of investors in the Company's average return EXPECTED consisting of debt short and long-term credits to preferred shareholders and common shareholders are entitled to interest. In this model, the weighted average cost of capital of the company calculated the weights of the various sources of capital values in terms of investment are used.

The following equation is used to estimate a weighted average cost of capital of a company's formula is shown.

Equation 1: $k_j * w_i = WACC$

Research Article

In this model, based on the total market value of the source in relation to the total value of the company is: $= 1 \dots$ (nth source is capital $i = k$ -th weight W_i and the expected return on bonds $i = K_i$)

Right part of the equation when only two sources of capital, including long-term debt and equity interest is simplified equation 2 can be shown that

Equation 2: $W_s K_s + (T - 1) W_d K_d = WACC$

K_d = cost of long-term debt expected to be T = marginal tax rate on corporate income K_s = the expected cost of long-term debt and equity weights here W_s and W_d note Depending on the target capital structure and optimal capital structure may be considered when determining the weights of debt and equity W_s and W_d have a market value instead of book value to market value, since values are:

A) A single-factor model that better reflects the company's asset pricing model K_s . Models used to estimate capital called.

B) Multi-agent model, which is called the arbitrage pricing model.

The following summarizes the model and a third model called the bond yield plus risk premium that many financial analysts are using expression.

Estimating the Cost of Equity Capital Using a Pricing Model with Capital

For each element of the capital structure is needed. Be considered an asset pricing model to calculate K_i Equation 2 to estimate the required return on such capital asset pricing model, this model can be an appropriate set of compatibility theoretically provide for the expected return estimates. Comments "that the standard method of capital asset pricing model states that the required return on risky assets such as equity in a linear integral to a variety of risks associated with the systematic risk of the other known risk systematic risk of the portfolio market All high-risk assets traded in the market. Financial analysts and brokerage firms like Merrill Lynch to reduce bias in the data to obtain estimates of beta firms reported they had used the idea of Marshall Bloom and theoretically as well as its ability the estimates of prospective yield have improved. Vlyvlayn modulation technique as shown in Equation (3) is a simple ratio:

Equation 3

Since the introduction in 1960 of capital asset pricing model to explain asset pricing theory and practical advances have been made. It can be used to determine the systematic risk factors using logic based on generalized financial arbitrage. This newer approach that is explicitly named today as the arbitrage pricing model "risk factors aside from the agent to the market portfolio, but it is interesting that this model does not say clearly that additional factors are the factors to be researchers have $M_j b v r b v d h$ tests Extensive empirical macroeconomic variables and financial affairs to find numerous additional factors that may explain the capital asset pricing model to improve relying $K_n n d . b d y n$ they recommend the use of GDP as the GDP growth rate by Stephen Avbayrn use This model has the answer K_s so that real interest rates and inflation, as well as additional factors in the estimation evaluated $G y r n d . a g r c h h$ other researchers using the additional factor included in the model to have public supply :

1 - The risk premium for the market portfolio excess returns

2. The difference between the yield on a portfolio of small stock returns on investment returns were collected and evaluated in a larger group of the population using the SMB shares of the investment provides (to Managing large or small portfolios minus the associated name brand).

3. Academic return on a portfolio that shows the difference between the yield on a group of stocks with high ratios of market value to book value and return on HMLora group of stocks with low ratios of market value to book value (which as portfolio high minus low, and the relative valuation of the company is called) $D v b s t$ of the capital asset pricing model based on empirical relationships observed and no convincing explanation for the lack of additional factors. So this has been accepted by a number of professional employees and easier on this model are still take the model of the arbitrage pricing the most prominent of their advantages in the fact that the power of described anticandidal stock returns in the real world is more than the capital asset pricing model.

Research Article

Alternatively bond yield plus risk premium method: This method is employed in some professional bond yield plus risk premium of $P + BY$ (Ks alternative to estimate) because of its simplicity and common assumptions. This method has invested billions of Warren local time in a particular empirical relationship that lacks theoretical justification. Nevertheless, it seems that the stock return and the efficiency of the addition of a fixed premium the estimable. The YTM Company with corporate bond yields at maturity empirically that this method is valid.

Different Methods for Determining the Average Cost of Capital

Three different methods of determining the weighted average cost of capital for companies, Microsoft and General Electric was a different result for each of these companies. Thus, careful judgment and sensitivity analysis to estimate reliably the important elements of the company's cost of capital Rvnd.aydh capital cost for accounting and finance professionals who work directly or indirectly as part of their participation in group decision making, multitasking mutual plays an essential role do they need the techniques for estimating the cost of capital for capital budgeting, merger and acquisition of companies, long-term analysis of the economic value added used as an indicator of financial performance, in order to control the Systems encouragements financial The residual income for performance evaluation, financial analysis and accounting value of purchased goodwill understand and apply.

History of Research

Table 1 summarizes the results of studies related to the quality of financial reporting quality, over-investment and free cash flow, defined:

Table 1: Summary of previous studies

	As a result of research
Jensen (1986)	Free cash flow in the business units, business units will result in over-investment.
Mvrgadv Pyndadv(2003)	and Relationship between investment and firm value, rather than linear, exponential (Grade II).Consequently, the optimal level of investment in the company.
Wang(2003)	Between high-quality financial reporting and capital allocation efficiency is significant.
Verdi (2006)	Between financial reporting quality and invest more (less) than there is a negative relationship.
Biddle and Hilary (2006)	High quality accounting, internal relationship between cash flow and investment is weaker.
Richardson (2006)	Over-investment in companies associated with free cash flow levels.
Yang and Jiang (2008)	Companies with high free cash flow, a stronger correlation between the quality of financial reporting quality and investment are too.
Biddle et al., (2009)	Higher quality reporting will prevent inadequate funding.
Chen and colleagues (2011)	Adequacy of accounting quality positively affects investment.
Teacher and Fence born (1387)	Financial reporting quality investment more (less) than it affects.
Hsarzadh (1388)	Free cash flow and financing constraints, respectively, over-investment and under-investment will follow.

Methods to Determine Priority Projects with a Capital Cost

Project evaluation process, but provides information for decision making of managers, as noted above, the relevance of information to the manager's decisions. Because different managers have different information needs for his decisions. In this section of the paper outlines methods to determine priority projects are:

Research Article

Methods based on Discounted Cash Flow (Ahmandpour and Ahmadi, 1387)

The evaluation of investment projects, based on the time value of money. The term discounted cash flow conversion of all receipts and payments in the coming years of a project's IRR time (Sirius, 1378), the method of discounting future cash flows using discount rates of return for our investment and the present value of the cash flows that will be to get Vtrrhay different periods of time We had to compare (Fadaii, 1382)

Net Present Value (Ismaili, 1385) (NPV)

The net present value of an investment project is the difference between the present value of the cash flows of output and input current value of expected future cash flows to calculate the present value of the discounted cash flows of incoming and outgoing investment rate of return on investment can be (the cost of capital) can be used.

Abbreviations are as follows: CIF incoming cash flow for period t ; i the discount rate, expected rate of return, cost of capital; ICO initial outflow; n the expected life of the project. (Ibid: 80) If the current value exceeds the present value of cash receipts, cash payments, the project under consideration will be acceptable.

Pros: 1) In this method, consider the time value of money. 2) the profits, the economic lifetime of the project will be considered.

Disadvantages: 1) Some believe that it is very difficult to apply this method. 2) The management entity should determine the discount rate for use of the method. However, managers should be aware that the purpose of the entity's cost of funding the discount rate, is a good sign, be aware. 3) If the investment projects in comparison, have different amounts of initial investment, the absolute amounts are calculated with net present value, a criterion used for ranking projects will be the difference in the amount of the initial investment has not been considered. 4) When dealing with various projects with different economic lives are (given the limited budget for capital expenditure) error may occur. Thus, the net present value of a project is more likely to live longer where it is shorter than the economic life of the project, will be less than desirable (Higher around, Sirius, 1384).

Profitability Index (Ahmandpour and Ahmadi, 1387) (PI)

Profitability index, or the ratio of benefit to cost ratio by dividing the present value of future cash flows of the investment cost is obtained.

If you have a project for assessment, which would be acceptable if its PI is greater than one ($PI > 1$) and if it is less than one ($PI < 1$) the project is rejected. Also, if the PI is exactly one ($PI = 1$), the decision makers would be indifferent between choosing or rejecting the project (Fadaii race, 1382). Therefore, in order to facilitate the analysis and evaluation of projects on a similar scale, we can the profitability index is used (Sirius, 1378).

Since the profitability index, net present value method is a great similarity, as well as the strengths of the NPV method is the discounted cash flow method, both are considered. But its main weakness, long-term cash flow that will occur in the future and it is very difficult to predict (Fadaii race, 1382).

3.1 Internal Rate (Ismaili, 1385) (IRR) If a certain rate, the present value of future flows is equal to the initial investment, the rate of the internal rate of return, IRR, you Gvyym.dr result, internal rate of return is the discount rate that makes net present value of the project equal to zero. So if it is equal to zero, r is the internal rate of return. To calculate r if the annual cash flows are unequal installments using trial and error method, the computation will continue until we reach r . If project cash flows equal installments, the internal rate of return can be calculated easily:

Given the amount PVIFA the life of the project and using the Present Value of Annuity Table rate siget it (Ibid: 87-86). After calculating this rate, it could be managed with internal rates of return on other investment projects compare and decide. In such cases, a minimum internal rate of return, the project determines the yield is lower than it is rejected (Sirius, 1378).

BENEFITS: 1) takes into account the time value of money. 2) economic profits throughout the lifetime of the project is required. 3) rate of return calculated in this way it is possible to manage more than the sum of the net present value or net present value of the index (which is calculated on a present value

Research Article

technique) is.4) Rate of return on the project, reasonable and uniform classification of investment projects is possible.

Disadvantages: 1) the application of this method compared with other methods more difficult. 2) The method assumes that the proceeds to be reinvested rate of return on the project, while the present value method assumes the investment of the proceeds, with the choice of discount rate. Some accountants assume the latter method is considered more reasonable.(Higher around, Sirius, 1384: 235)

The non-discounting Methods (Ahmandpour and Ahmadi, 1387)

Although the discounted cash flow techniques for evaluating investment projects is very common, but some administrators prefer other methods are also used. The other three methods are relatively common capital recovery period, the reverse recovery period and accounting rate of return on investment in any of these methods, is not funds used tanzil.

Period of (Ismaili, 1385) (PP)

In this way, a faster return of your original investment projects will be preferred. Period of time required to return the initial investment through future cash flows. Annual inflows in the coming years if a project is equal to the initial investment into a cash flow output, entering into an installment every year, obtain the return period (Fadaii race, 1382).

The initial cost of the project
Annual cash flows
$$PP = \frac{\text{Initial cost of the project}}{\text{Annual cash flows}}$$

Waste Management has been calculated with acceptable recovery period for such projects to be compared (Higher around, Sirius, 1384), many managers believe that the capital recovery period, it is also a measure of risk. For funds that will be studied in the near future, make sure the funds are expected to be achieved in the years beyond (Sirius, 1378).

Reverse Capital Recovery Period³(PR) reverse capital recovery period of investment recovery period is obtained by dividing an estimate is easy (although sometimes not so subtle) is the internal rate of return (Ibid: 359).

One
Capital recovery period
$$PR = \frac{1}{\text{Internal rate of return}}$$

Pros: 1) The method of calculation is easy. 2) This method can be used to select investment projects that yield quick cash are used and therefore, the liquidity of the project are emphasized.3) the method allows the time required to recover business capital.

Initial Investment to set the standard for assessing the risk of each investment project to be achieved.4) Reverse the investment can be recovered under certain circumstances, as an approximation of the rate of return based on discounted cash flow method, which is used XXVI reliable estimates when compared with the recovery of the investment project economic life, long (at least twice) and log in cash each year is relatively uniform. 5) The widely used method that is certainly in comparison with methods based on speculation or sensory perceptions is a better way.

Disadvantages: 1) In this method, the time value of money is ignored. 2) In this method, revenues and related cash flow after capital recovery period of study will be ignored. 3) In this method, the residual value is not guaranteed (Higher around, Sirius, 1384).

Average Accounting Rate of Return or Return on Accounting (Ahmandpour and Ahmadi, 1387) (Arr)

Some companies, project profitability as a percentage of capital employed show (Fadaii race, 1382).

Net profit
Investment
$$APR = \frac{\text{Net profit}}{\text{Investment}}$$

Accounting rate of return as a criterion for evaluating investment projects and priorities at the discretion of management. The projects can be monitored on a regular basis and the accounting rate of return is proportional to the amount of investment, the top of the list start-up (Sirius, 1378).

Pros: 1) pursuit of capital expenditure was due to the ease of access to the information reflected in the accounting records is facilitated. 2) The lifetime economic benefits from the project will be considered.

Research Article

Disadvantages: 1) the time value of money is ignored. 2) The manner in which those investments are done after the project start date, no applications (Higher around, Sirius, 1384).

Final Cost of Capital

The final cost, fee or expense to obtain the latest unit is a unit other than the worker's last salary For example the marginal cost of labor can be hired to discover the latest unit price for materials Yd.hzynh final materials can be purchased lawn Similarly, the marginal cost of capital, cost of funds is the latest company collects. .It is seen that the number of 1,000 billion rials curve marginal cost of cooling rate (10%) indicated that if the company wants less than 1000 billion of new capital used to cost 1 real end of the final cost of the 10 per cent after this point, ie after the 1,000 billion rials increases the marginal cost of capital.

Capital expenditures (percent)

(MCC)

15

10

1800 1000 500 0

New capital accumulated over the years (billions of dollars)

Cost Management of Capital Stock

Estimating the Cost of Equity Capital using a Pricing Model with Capital

For each element of the capital structure is needed. A model for pricing K_i is considered for the calculation of equation 2 to estimate the required return on such capital asset pricing model, this model can be an appropriate set of theoretically adapted to provide estimates of expected returns. Comments "that

way is an integral linear variation linked to a risk that the other is known as systematic risk, the systematic risk of portfolio risk Ordinary shares the standard capital asset pricing model says that there turn required by an Risk assets as Ordinary shares. The standard capital asset pricing model says that the return required by Comments "that way is an integral linear variation linked to a risk that the other is known as systematic risk, the systematic risk of portfolio risk Market risk sensitive assets traded in the market It is. Brokerage firms and financial analysts as Merrill Lin directed Kahish undoubtedly der Published data to obtain estimates of beta companies they have used the idea of Marshall Bloom and theoretically as well as its ability the estimates of prospective yield have improved. Vlyvlayn modulation technique as shown in Equation (3) is a simple ratio:

Equation 3

Since the introduction in 1960 of capital asset pricing model to explain asset pricing theory and practical advances have been made. This newer approach is to model Frank "risk factors very raBL factor Portfolio to the market, but it is interesting that this model does not say clearly what factors should be additional factors that researchers have Mjbvrbvdh Extensive empirical macroeconomic variables and financial affairs to find numerous additional factors that may explain the capital asset pricing model rely improve.

Why not suggest that the growth rates for this purpose they use GDP Why not suggest that the growth rates for this purpose they use GDP by Stephen Avbayrn. This model has been used to answer such that K_s real interest rates and inflation, as well as additional factors in Estimated. These are evaluated although other researchers using a three-factor model to include others have offered to the general public:

1 - The risk premium for the market portfolio excess returns

2- The difference between yield son portfolio returns A small group of stock turns on the investments madein the relevant A large group of the population is evaluated and used to measure investment provides SMB shares (of which the Managing large or small portfolios minus the associated name brand).

3- Bazdh Achievement Barr Royprtfoaa Keoyaa The difference between the yield on a group of stocks with high ratios of market value to Book value and return on HML or a group of stocks with low ratios of market value to book value (which as portfolio high minus low, and the relative valuation of the company is called) Dvbst of the capital asset pricing model based on empirical relationships observed and no convincing explanation for the lack of additional factors.

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RESULTS AND DISCUSSION

The Results and Findings of the Study

Each company has its own risk and return (if the object is a company whose goal is profit) each group of investors, including bondholders, preferred stock and common stock, the amount of the rates of return are demanding that the appropriate risk-related to it.. Evidence ads used in this case is that if the company's rate of return is higher than its cost of holders of the capital securities and preferred stock to the desired rate of return for fixed rate of return to holders of ordinary shares outstanding will be the rate of return on... More will be expected of them. Thus, excess profit taking took a number of ways:

1. Dividends paid by the Company in an amount greater divide between ordinary shareholders.
2. The interest of the company to re-invest in the company and thereby increase the rate of return periods.
3. The combination of these two methods are therefore appropriateness of ordinary shares (the shareholders) increases and increased demand leads to increased prices of ordinary shares in the market. Thereby increase shareholder wealth and providing the target company.

Should we interpret the estimates weighted average cost of capital created?

To create a high degree of variation in the weighted average cost of capital analysis, the analyst must estimate the ultimate cost of choosing the above-mentioned henceforth.

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- 1 - Discounted cash flow methods
- 2 - Net Present Value
- One - Profitability Index (Benefit / Cost Ratio)
- 2 - Internal rate of return
- One - Nondiscounted Cahflow
- 2 - Payback Period
- Three - Pay back Reciprocal
- One - Accounting Rate of Return