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## **INVESTIGATION THE QUALITY OF INFORMATION DIVULGENCE ON BENEFIT RATE STABILITY AND ITS ELEMENTS AMONG ACCEPTED COMPANIES IN TEHRAN'S COMMERCIAL PAPERS EXCHANGE**

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### **ABSTRACT**

The aim of this study is to investigate the quality of information divulgence (including two components of support ability and being up to date) on benefit rate stability and its elements. Since benefit's stability is one of the main components considered in benefit's quality, and since more stable benefits have more quality than unstable benefits, then they have more valuation in commercial papers. This study uses data of accepted companies in Tehran's commercial paper exchange in period between 2002-2009. To test the research hypothesis the method of multi variance regression model with combined data estimation was applied. It is found that the quality of divulgence increases the stability in cash part of the benefits. It is also found that the divulgence quality has no significant effect on stability increasing and reported benefit quality.

**Keywords:** *Benefit Quality, Benefit Stability, Information Divulgence Quality and Committal Stocks*

### **INTRODUCTION**

The main role of financial reporting is transferring the information to out of organization personnel in such a way that be valid and on time. Managers can use from their awareness in context of commercial activities of company to improve the effectiveness of information transportation to investments about financial bills. However, if managers have motivation to deceive the users of information in financial bill reports using their own authority, it is expected that the benefit management occurs. The management's view point about determination of reported benefit rate will decrease the benefit quality.

One of the main components of benefit quality is its stability. It is assumed that more stable benefits are better inputs for valuation model in commercial papers and therefore, more stable benefits have more quality than unstable ones. Researcher predicts that the more stable benefits lead to higher valuation on commercial papers and in turn lead to positive efficiency in exchange.

Market participants seek financial information with high quality, since these kinds of information will decrease the unsymmetrical state between company management and investments. There is a large body of accounting literature indicating that availability of high quality divulgence decreases the unsymmetrical state of information. Based on the founding of (Badri, 2008) broad divulgence policy is a procedure that decreases unsymmetrical state between managements and outside investments.

The level of clearance in annual reports of companies has been a debatable area in recent years.

This study investigates the quality divulgence quality effect on benefit stability and its components. It is expected that companies with higher quality of divulgence obtain more stable benefits over time.

#### ***The Cash and Committal Components of Benefit***

Benefit comprises from cash and committal parts. The former part is the cash flow of money obtained from operational activities and the later part obtained from subtracting cash money of operational activities from net benefit rate.

Investigating on determining what part of the benefit components is stable or not, researchers have consensus that cash part is more stable than committal part.

Investments do not realize the fact that supportability of committal stocks is less than cash flow. Committal stocks are measured by error which is irrelevant to valuation. Errors in committal stocks can

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rise from intend ant benefit management and inappropriate accounting standards or unintentional errors in estimation. Regarding each one of these factors, the error will decrease the benefits stability.

#### **Benefit Stability**

Benefit stability means repeatability of current benefit. The higher stability of benefits, the more ability of commercial unit for protects current benefits and in turns the more quality of benefits in commercial unit (Francis *et al.*, 2005). Considering the behavior of benefit components and regarding to the lower correlation coefficient for committal part of benefit relative to the cash part, concluded that committal part of benefit has less stability than cash flow part and also he asserted that increasing in committal benefits has reverse effect on benefit's stability (Lobo and Zhou, 2001).

Studied the supportability of committal stock and benefit's stability and found that low supportability of committal stocks decreases the benefit's stability.

#### **Relationship between Divulgence Quality and Benefit Quality**

Nowadays, expansion in economic activities, development of financial markets, and growth in investments particularly in commercial paper exchange centers both through legal and ordinary persons, requires availability to accurate, firm and on time information and its real analysis as a main tool for true decision making and earning expected benefits and also for optimum use of financial facilities. Investments and stockholders need to be aware of future value of stocks and this awareness is based on the exact prediction of company's stability. Because of some personal adjudication and evaluation of reported benefits in financial reports and bills, this kind of information cannot be valid source to show company's power in creation of desired cash flow. Benefit stability relates to the quality and is an important component of accounting benefits which reflects its stability and duration. High quality of divulgence causes divulgence of committal stocks and cash stocks stability.

It seems companies with high and clear divulgence quality have more stable benefits because of informing investment about true information. A reversed trend has been observed when companies do not clearly divulgence their information. This situation in turn causes reduction in their stability state.

#### **Research Hypothesis**

Research hypotheses are:

1. Cash part of benefit is more stable than committal part
2. High quality of divulgence causes more stable benefits
3. High quality of divulgence increases the stability of operational cash flow.
4. High quality of divulgence increases the stability of committal stocks.

### **MATERIALS AND METHODS**

Data collection method: data were collected in two separate steps: first, library studies were done to obtain a theoretic basis for research. Second, data were selected from reported financial bills to commercial papers exchange and other informational resources such Tadbir Pardaz and Rah Avard Novin data banks.

Information of present study consisted of combined data. Required data to test the hypothesis were firstly prepared in EXCEL Software and then the analysis of hypothesis was done in View 7 Software.

#### **Statistical Society, sample Size and Research Duration**

The statistical societies of present research consist of all companies accepted in Tehran's commercial paper exchange between 2002-2009. To determine the statistical sample in systematic omissive way, the following conditions were applied:

1. First, companies without financial year end in 20<sup>th</sup> – 21<sup>th</sup> March were omitted (103 companies, 736 year-company).
2. Banks, financial institutions and financial investment companies were also omitted because of different nature of them relative to the business units (13 company, 75 year – company).
3. In the end, companies with no or deviated data were omitted (76 companies, 420 year – company).

Applying the above conditions, 265 companies (2017 year – company) were selected to estimation of models and hypothesis.

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**Research’s Models**

After data gathering process and availability to statistical society, but estimation of following model the first hypothesis were tested:

$$EARN_{it+1} = \alpha_0 + \alpha_1 CFO_{it} + \alpha_2 ACC_{it} + \varepsilon_{it+1} \quad \text{model (1)}$$

In which EARN is the net benefit, CFO operational cash flow and ACC is committal stocks obtained from subtracting CFO from EARN. These variables are mediated by wealth in the beginning of period. In model (1) if  $\alpha_1$  be significantly greater than  $\alpha_2$ , the first hypothesis of research will be true.

To test the second hypothesis, the following model is estimated:

$$EARN_{it+1} = \beta_0 + \beta_1 DQ_{it} + \beta_2 EARN_{it} + \beta_3 DQ_{it} EARN_{it} + \varepsilon_{it+1} \quad \text{model (2)}$$

In which DQ is divulgence quality obtains from taking arithmetic logarithm from company’s DQ score. DQ score publishes by organization of commercial papers exchange. In the second hypothesis of research it is expected higher DQ leads to an increase in benefit’s stability. Considering the second hypothesis of the research it is expected that the  $\beta_3$  coefficient be positive and significant.

To test the third and fourth hypothesis of research, the following model was implemented as a predicted model:

$$EARN_{it+1} = \varphi_0 + \varphi_1 CFO_{it} + \varphi_2 ACC_{it} + \varphi_3 DQ_{it} + \varphi_4 DQ_{it} CFO_{it} + \varphi_5 DQ_{it} ACC_{it} + \varepsilon_{it+1} \quad \text{model (3)}$$

All variable were defined previously. In model (3) if the coefficient  $\varphi_4$  ( $\varphi_5$ ) be positive and significant, and then the third (fourth) hypothesis is true.

**RESULTS AND DISCUSSION**

First hypothesis test and its results: model (1) along with a combined approach is used to test first hypothesis.

**Table 1: Results of model (1) prediction**

$EARN_{it+1} = \alpha_0 + \alpha_1 CFO_{it} + \alpha_2 ACC_{it} + \varepsilon_{it+1}$			
Variables	Coefficient	Statistics factor of T	Significance
Ordinate	0.04 <sup>***</sup>	8.89	0.00
CFO	0.75 <sup>***</sup>	36.56	0.00
ACC	0.51 <sup>***</sup>	21.14	0.00
mediated Determination factor	50.91%		
Fischer’s statistic	(0.00) 169.77 <sup>***</sup>		
LIMER’s F statistic	(0.00) 3.35 <sup>***</sup>		Cons. Effects approach
HOSSMEN’s Statistic	(0.00) 10.67 <sup>***</sup>		Cons. Effects approach
Doorbin’s Statistic	2.07		
Valed’s Statistic	(0.00) 103.66 <sup>***</sup>		

\*\* Significance at 1%

Limir and Hossman’s statistics were significant in 3.35 and 10.67 (respectively) which indicate to predict model (1) constant effects approach should be used. The results of model (1) prediction with this approach along with the Valed’s test results are illustrated in table (1).

Results indicated in table (1) show that parameters such ordinate 0.04, coefficient of operational cash flow 0.75 and committal stocks coefficient 0.51 are significant ( $P < 0.01$ ). Significance of Fischer’s statistic (169.77) presents the overall significance of the model. The value of Doorbin - Watson (2.07) indicates that the components have not serial correlation and therefore one can rely on obtained statistics. Mediated determination coefficient also indicates that the variables of operational cash flow and committal stocks explains the difference in net value of benefits at future financial year approximately at 51% probability.

The result of Valed test 103.66 also indicates that the operational cash flow coefficient (0.75) is significantly greater than committal stocks coefficient (0.51). This means more stable state of cash flow part than committal part and in turn confirms the first hypothesis.

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**The Results of Prediction by Model (2) and Research’s Second Hypothesis Test:**

To test the second hypothesis of research, model (2) with the approach of combined data is predicted. The significance of Limer statistics (1.27) in level of 5% along with insignificance of Hossman’s statistics (4.27) indicate that to predict model (2) it is needed to use accidental effects approach. The result of model (2) predication with such an approach is illustrated in table (2).

Presented results indicate that ordinate of -0.02 and variable coefficient of DQ and net benefit (0.01) are not significant but the coefficient of DQ variable (0.02) and net benefit (0.55) are significant in level of 5% and 1% respectively.

The significance of Fischer’s statistics (259.82) indicates the overall significance of model. The value of Doorbin – Watson statistics (2.15) also indicates that the components of model have not serial correlation and one can rely on obtained statistics. The mediated determination coefficient also shows that the net benefit variables, DQ and their products could explain approximately 42% of annual variations.

**Table 2: The results of model (2) prediction**

$$EARN_{it+1} = \beta_0 + \beta_1 DQ_{it} + \beta_2 EARN_{it} + \beta_3 DQ_{it} EARN_{it} + \varepsilon_{it+1}$$

Variables	Coefficient	Statistics factor of T	Significance
Ordinate	-0.02	-0.64	0.52
DQ	0.02*	2.40	0.02
EARN	0.55**	4.50	0.00
DQ*EARN	0.01	0.43	0.67
mediated Determination factor	42.21%		
FiCSHER’s statistic	(0.00)259.82**		
LIMER’s F statistic	(0.05)1.27*		Cons. Effects approach
HOSSMEN’s Statistic	(0.23)4.27		Cons. Effects approach
Doorbin-watson’s Statistic	2.15		

\*, \*\* respectively Significance at 5% and 1%

Based on the second hypothesis of research it is expected that variable coefficient of DQ\*EARN be positive and significant. However, the obtained coefficient (0.01) from model (2) is not significant and this indicates that the DQ in sample companies have not any significant influence on benefit stability and therefore the second hypothesis will reject.

**The Results of Model (3) Prediction and Test of Third and Fourth Hypothesis**

To test the third and fourth hypothesis the model (3) with combined data was used. The significance of Limer (3.35) and Hossman (1.74) statistics indicate that to predict the model (3) one should use from constant effects approach.

The results of model (3) prediction with this approach are illustrated in table (3). These results indicate that ordinate (-0.01) and variable coefficient of DQ\*ACC (0.00) are not significant but the coefficient of operational cash flow variables (0.41), committal stocks (0.47) in level of 1% and the coefficient of DQ variables (0.01) and DQ\*CFO (0.08) in level of 5% are significant.

The significance of Fischer’s statistics (102.07) indicates the overall significance of model. The value of Doorbin – Watson’s statistics (2.12) also indicates that the components of model have not serial correlation and in turn indicates that one can rely on obtained statistics. The mediated determination factor also indicates that the dependent variables could explain approximately 50 % of future variations.

The positive and significance of variable coefficient of DQ\*CFO (0.08) indicates that increase in DQ increases the stability of cash part of benefit.

This indicates that the third hypothesis will not reject. However, insignificance of variable coefficient of DQ\*ACC (0.00) means no influence of DQ on stability of committal part of benefit. This means in turn the rejection of final hypothesis.

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**Table 3: The results of model (3) prediction**

$$\text{EARN}_{it+1} = \varphi_0 + \varphi_1 \text{CFO}_{it} + \varphi_2 \text{ACC}_{it} + \varphi_3 \text{DQ}_{it} + \varphi_4 \text{DQ}_{it} \text{CFO}_{it} + \varphi_5 \text{DQ}_{it} \text{ACC}_{it} + \varepsilon_{it+1}$$

Variables	Coefficient	Statistics factor of T	Significance
Ordinate	-0.01	-0.44	0.66
CFO	0.41 <sup>***</sup>	3.28	0.00
ACC	0.47 <sup>***</sup>	3.07	0.00
DQ	0.01 <sup>*</sup>	2.11	0.04
DQ*CFO	0.08 <sup>*</sup>	2.35	0.02
DQ*ACC	0.00	0.04	0.97
mediated Determination factor	49.50%		
FiCSHER's statistic	(0.00)102.07 <sup>***</sup>		
LIMER's F statistic	(0.01)3.35 <sup>**</sup>		Cons. Effects approach
HOSSMEN's Statistic	(0.01)16.74 <sup>**</sup>		Cons. Effects approach
Doorbin-watson's Statistic	2.12		

\*, \*\* respectively Significance at 5% and 1%

**Results Analysis of Hypothesis Test**

The obtained results indicate that in the first test, the cash part of benefit has minimal rate of disturbance by managers while the committal part of benefit (committal stocks) has lower rely ability than cash flow of money because of prediction, estimation and manager's judgment errors. Thus, the cash part of benefit is more stable.

Insignificance of second hypothesis which state that high DQ of information has no effect on increasing in benefit's stability, indicates that even companies with exact prediction on their own benefits and high DQ, proceed with benefit management. In other words, it can be said that there is reasonably high probable that to satisfying the investments expectations and earn predicted benefits, companies manages the benefits, and this in turn will decrease their benefit's stability. This part of founding is in line with the study of (Shaw, 2003).

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