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Relationship between Restating Financial Statements and Accuracy of Forecasting Dividends per Share by Management

Somaye Borhani* and Mohammadreza Abdoli
Department of Accounting, Science and Research Branch, Islamic Azad University, Neyshabur, Iran

* Corresponding author's Email: borhani977@yahoo.com

ABSTRACT: Present study is aimed to investigate the relationship between restating financial statements and accuracy of forecasting dividends per share; studies suggest that companies which restate financial statements has tried to meet negative consequences of post-period restating. It seems that administrators of such type of companies try to enhance the credibility of provided forecasts in capital markets. In other words, presumably, accurate and reliable forecasting by management is an appropriate method to increase the quality of disclosure in companies which restate financial statements. Therefore, the purpose of this study determine will be relationship between restating financial information on the accuracy of forecasting dividends per share, and explaining their forecasting behavior in companies which try to restate accounting information. Research method is descriptive and correlation type and the pattern of testing hypotheses is a multiple regression model. As well as, 170 companies (since 2008 to 2012) were selected to test the hypotheses. According to the research hypothesis, which is relationship between restating financial statements and accuracy of forecasting dividends, research results indicate that there is a significant and direct relationship between accuracy of forecasting dividends and restating financial statements, and accordingly, it seems that companies which restate financial statements will increase the accuracy of forecasting dividends per share in pre - period of restating.

Key words: Restating Financial Statements; Accuracy of Forecasting, Dividends per Share

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INTRODUCTION

One of the purposes of accounting and preparing financial statements is providing useful information to decision making. Investors need relevant and reliable information to make proper decisions. Usefulness in forecasting is one of characteristics of relevant information. Disclosing predictions of an entity defines the management knowledge from company operations, and its point of view from future perspective of such operations to investors. Thus by disclosing predictions of an entity, stock price typically will react to it (Tuna and Verdi, 2008). In Accounting Principles Board Statement No 4 (AICPA, APB Statement No. 4), one of common objectives of financial statements is providing information to help forecast future dividends of entity. Investors, creditors, and other users of financial statements use profit as a base of investment decision making, dividend payments policy, calculating taxes and other decisions related to the company. Forecasting this figure by managers of economic units will help investors to make decision on estimate of future cash flows. If manager of company as an informed source draw the future of company, through forecasting dividends per share, to shareholders, mentioned risk will decrease and investors will act more reliable in evaluating future cash flows (Hirst et al., 2008). In companies which restate financial statements, before restating financial statements, the possibility of presenting the board and audit committee with low independency is more than companies in the control group. Therefore, companies which have restated their previous financial statements, in comparison to the other ones in statistical universe, have poor corporation strategic principles (Nabar et al., 2009).Evidences indicate that restating information will reduce company's market value and will increase capital costs(Huang et al., 2012). Researches show that companies, which restate financial statements, try to meet negative consequence of restating in periods after restating. In other words, probably, more accurate and more reliable predictions by management will perform in companies which restate financial statements (Ettredge et al., 2012).There are evidences about reactions of capital market toward issuing management predictions .The importance and necessity of doing this study is paying attention to restating financial information, as a factor which may affect the environment of financial reporting in profit units.

A Review on Research Literature: Layeghifar et al. (2013) in" the influence of financial situation of companies on the earning forecast accuracy by managers of listed companies in Tehran stock exchange" concluded Research findings show that continuity of activity and income smoothing variables can affect earnings forecast accuracy, while financial crisis and auditor's opinion variables were not affective on earning forecast accuracy.

Kordestani et al. (2010) have tried , empirically, to study the importance of annual adjustment in capital markets. They concluded that many restated figures, in account heading, per year, will result in reducing reliability of annual financial statements.

Bolo et al. (2012) in "evaluating the impact of restating financial statements on profit management and its stability" concluded that there is a significant relationship between restating financial statements and profit management, and increasing restating financial statements will reduce dividend stability.

Bahar Moghadam et al. (2012)in "comparing the quality of reported profit and restated profit concluded that, the quality of restated profit in comparison with reported profit has further stability and predictability. Rahmani et al. (2012) in investigating "the relationship between restating financial statements and pricing information risk" concluded that after restating, optional information risk will increase, and restating main accounts in comparison with other accounts will lead to further increase of inherent information risk.

Wilson (2008) , in his research suggests that the content of profit information will relatively decrease after restating financial statements, and after restating, users of financial statements will lose their confidence to company's financial information, on average, for a year. Abdullah et al. (2010) in studying the nature of restating financial statements in listed company of Kuala Lumpur Stock Exchange, and the impact of corporate governance component found that the most and major reason of figures manipulating has been achieving to a specific amount of profit, and companies with high amount of debt are committed to restate financial statements.

Badertscher et al. (2011) in a research entitled “optional accounting procedures and the ability of forecasting accrual items”, on the basis of future cash flows, have used companies’ restated financial statements .They suggest that, in the case of profit management sample that is based on managers’ opportunistic incentives, initial reported profit and accruals, and in comparison to restated figures have less forecasting ability to estimate future cash flows.

Ettredge et al. (2012) in a research, have investigated the impact of restating information on the behavior of dividend forecasting by managers, and concluded that companies which restate financial statements will issue less predictions in post-periods restating. As well as, post-restating predictions have less accuracy. Albering et al. (2012) in investigating the impact of accounting restating on the companies ’growth rate concluded that after an accounting restating, the growth rate of statistical sample will decreases. And also companies which restate financial statements have less ability to financing through debt.

Research Hypothesis: There is a significant relationship between restating financial statements and accuracy of forecasting dividends per share by management.

MATERIALS AND METHODS

The statistical population, sample and sampling method: The research statistical population is listed companies in Tehran stock exchange which have following conditions:

1) They are not one of financial investment and intermediaries companies, banks, and insurance.

2) The end of their fiscal year has been end of March, and during mentioned period, they have not change their financial year.

3) Their trading symbol has been active, and has not interruption in their trading symbol more than 4 months per year.

4) During all the studied years, at the end of fiscal year, their necessary data and information should be available.

According to above conditions, 170 Companies (since2008 to 2012) were selected to estimate the models and test the hypothesis of the research.

Model and Variables of the research: The necessitated data is provided through the application of Tehran Stock Exchange Information Center, from the financial statements of listed companies in Tehran Stock Exchange. In the present study, first the original data, from PDF files, are conveyed into Microsoft Excel. Then, the necessitated data is provided through Microsoft Excel for placement in the model. In order to analyzing data and testing hypothesis, statistical software SPSS, EXCEL is used. Hypothesis testing model is a multiple regression model, which has adapted from ʿEttredgeʾ (2012), research as follows:

$PREC_{i,t} = \beta_0 + \beta_1 TEST\_in\_POSTPERIOD_{i,t} + \beta_2 TEST\_in\_PREPERIOD_{i,t} + \beta_3 MATCH + \beta_4 Size_{i,t} + \beta_5 MTB_{i,t} + \beta_6 Horizon_{i,t} + \beta_7 ROA_{i,t} + \beta_8 Loss_{i,t} + €_{i,t}$.

PREC (profit forecasting accuracy): it will calculate from absolute value of differences between actual and forecasted profit of per share on the last price (Kordestani, 2009). (Dependent variable).

TEST_in_POSTPERIOD: if restate financial statementsis be in a year ago of the year, its value will be 1and otherwise it is zero. (Independent).

TEST_in_PREPERIOD: if restate financial statements is be in a year next of year, its value will be 1and otherwise it is zero. (Independent).

MATCH: if observation is not one of companies which restate financial statements in the same year, its value will be 1and otherwise it is zero. (Independent). Size: the size of company that will calculate through logarithm of total assets. (Control variable).

MTB: the ratio of market value to book value of shareholders rights. (Control variable).

Horizon: the number of remaining days to the end of financial year, since issuing profit forecasting. (Control variable). ROA: The ratio of net income to book value of assets. (Control variable).

Loss: if the company in target year has been dis-profitable its value will be 1and otherwise it is zero. (Control variable).

RESULTS

Descriptive characteristics are examined as the table 1. Descriptive results of the research variable show that the value of Zero to a maximum value of forecasting accuracy variable reflects the highest level of accuracy. As well as, the standard deviation of profit forecasting accuracy per share variable is less than their mean value; as a result, distribution of these variables as research dependent variable, relatively is close to normal distribution. The mean of variables in companies which do not restate financial statements is higher than companies which restate financial statements. Therefore, during the study, the numbers of companies which restate financial statements have been less than companies which do not restate financial statements.

Pearson Correlation Coefficient is between variable of TEST _in_PREPERIOD; and profit forecasting accuracy is 0.082, which in error level of 0.05 indicates that the variable of profit forecasting accuracy has a direct and significant relationship with variable of TEST _in_PREPERIOD.

The examination of the results of the statistical summary table 2 show that amount of relevant probability is 0.096,which is higher than test error level (α=0.05), therefore, the values of profit forecasting accuracy variables follow a distribution close to a normal distribution. And table 3 this model, according to modified determinant coefficient and through changes in independent variables, has been able to explain 23 percent of changes in profit forecasting accuracy per share. Durbin-Watson Statistic is 1.5 to 2.5; therefore, there is no autocorrelation between errors of regression model. Significant level of F statistic is less than level of test error (α=0.05), i.e. there is a significant relationship between restating financial statements and profit forecasting accuracy per share by management. On the basis of this fact that bias-variance factor statistic, and tolerance of this test in all variables are close to 1, there is no strong multicollinearity between independent variables of regression model; As well as, the estimated coefficient and significance level for the variable of TEST_in_PREPERIOD, respectively, are 0.058 and 0.027.This finding suggests that profit forecasting accuracy per share among restating companies, in pre-period of restating will increase. This hypothesis will accepted, in confidence level of 95 percent.

Table 1. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
PRECi,t	850	-3.6345	.0000	-.181	.0669
TEST_in_POSTPERIOD	850	0	1	.33	.469
TEST_in_PREPERIOD	850	0	1	.42	.493
MATCH	850	0	1	.57	.495
Size	850	10.45	18.60	13.395	1.377
MTB	850	12.77	58.76	1.340	13.129
Horizon	850	.00	5.77	5.100	1.566
ROA	850	-.71	.62	.092	.1378
Loss	850	0	1	.14	.347

Table 2. Normality Test of Dependent Variable

Dependent Variable	Kolmogorov-Smirnov Test		
	Test Statistic	DF	Sig.
Profit Forecasting Accuracy	0.051	848	0.096

Table 3. Statistical Analysis of Hypothesis Testing

Adjusted R^2	Durbin-Watson Statistic	F Statistic		Sig.	
0.23	1.734	36.812		0.000	
Variable	Standardized Coefficients -Beta	t	Sig	Collinearity Statistics	
				Tolerance	VIF
TEST_in_POSTPERIOD	0.006	0.186	0.852	0.863	1.158
TEST_in_PREPERIOD	0.058	2.77	0.027	0.951	1.051
MATCH	-0.009	-0.26	0.789	0.827	1.21
Size	-0.096	-2.963	0.003	0.973	1.028

MTB	0.036	1.109	0.268	0.986	1.014
Horizon	0.031	1.957	0.039	0.997	1.003
ROA	0.014	0.339	0.734	0.711	1.365
Loss	-0.347	-8.382	0.000	0.701	1.364

DISCUSSION

The results of the examination of the hypotheses showed that there is a direct and significant relationship between restating financial statements and profit forecasting accuracy per share by management, and indicated that in period before restating financial statements, restating companies' forecasting accuracy has increased. In other words, the results show that in period before restating financial statements, companies which have restated financial statements provided more accurate profit forecasting in next period. This finding is not compatible with results of 'Ettredge' et al. (2012) research. Since these researchers have found an inverse relationship between restating information, in previous period, and profit forecasting accuracy per share. The reason of incompatibility of hypothesis test results with available theoretical evidence can be interpret according to differences in managers' financial reporting incentives. It seems that restated information has had higher quality, and in predicting company future prospects can provide high quality information to managers. In this regard, 'Badertscher' et al .(2011) showed that the ability of forecasting restated information have been more than forecasting basic information on estimating future cash flows. The researchers argued that since restated information, potentially, are far from managers' opportunistic incentives toward untrue reporting, they have higher quality and greater forecasting ability. Therefore, it seems that when managers pay attention to restated information in previous period as base of profit forecasting in current period, can provide more accurate predictions for capital markets and other users. As well as, it seems that managers have incentives to reduce the undesirable impacts of restating information on consumer confidence toward information, which result in more accuracy in profit forecasting of per share. In this regard, 'Ettredge' et al (2012) have argued that managers of restating companies have incentives to reduce undesirable impacts of restating information on consumer perspective toward financial information, and avoiding from information risk. These incentives will encourage managers to provide more voluntary information with higher quality toward improving information transparency. Therefore, it is possible that improving forecasting accuracy of managers in restating companies have been as a result of their more efforts to data analyze, in order to regain costumers confidence and trust.

Research proposals

Proposals based upon the research results: Since, restating financial statements has led to increase of profit forecasting accuracy per share by management, managers of restating companies are recommended to meet negative consequence of restating figures, increase their accuracy in presented profit forecasting to the capital markets, and through it try to find the trust of capital market; and also, users of financial information are recommended to act warily toward information provided by restating companies, only on the period of restating , and thereafter try to pay attention the published data, and in particular, profit forecasting of per share, more optimistically, because it has proved that managers of such companies have incentives to provide high quality information, in the period after the restating.

Suggestions for future research: Investigating the impact of restating financial information on capital market reactions toward reported accounting profit. Also, studying the relationship between restating financial statements, in addition to manipulating and smoothing profits in companies recommended.

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