

Role of Discretionary Current Accruals on Earning Management- A Case Study: Publicly Traded Companies at Tehran Stock Exchange

Hamidreza Kordlouie^{1*}, Davood Jadidol Eslami² and Elmira Mahmoudzadeh³

¹*Finance Department, International Qeshm Branch, Islamic Azad University, Iran*

²*Accounting Department, Shahid Shamsipour Faculty, Iran*

³*Accounting Department, South Tehran Branch, Islamic Azad University, Iran*

The aim of this paper is testing earning management of companies providing the initial stock and the relation between discretionary current accruals and Operation cash flow, Free Cash Flow by using the financial information of companies in the Tehran exchange stock in fundamental metals industry and Cement, Lime and Plaster in a period of four years. We used Jonse adjusted model to examine earnings management and discretionary current accruals. We find that the environmental condition of each industry can have an influence on the content of managers' usage of discretionary current accruals in order to manage earning. It also was determined that discretionary current accruals has significant relation with Operation cash flow and free Cash Flow, and the results show that we can consider free cash flow as an incentive earnings management.

Keywords: initial public offering, earnings management, discretionary current accruals, operation cash flow, free cash flow

Introduction

Goal of accounting and financial statement is supplying demands and informational needs of users. Fundamental financial statement is regarded as principal tool for transferring information to outer organizational users and persons. Profit and loss statement is very important; since, it is among fundamental statement dealing with evaluating partnership of management and its audit against resources. Profit and loss statement covers return obtained from resources controlled by management of trading unit and determines performance of trading unit during desired period. Accounting profit that is reported and measured based on commitment offers more exact evaluation of trading unit and its financial status which is regarded as most important information while making decision. Nevertheless, profit based on commitment is not changeable due to some innate limitation of accounting including deficiency for estimation and ability of using several methods. Result of using this practical option based on commitment is decreasing dependency and useful accruals. Therefore, due to probability of difference between report profit and real profit, investors should be very careful for their decisions.

Financial information has considerable influence on decreasing financial costs of firms. This decrease depends on imagination of investors from risk of firm that is function of profit. Whereas liability of preparing financial statements is by management of commercial unit and direct access of managers to information and having right of selecting accounting methods, interested managers offer financial statement of commercial unit to shareholders and other beneficiaries in the way of maximizing personal benefits, social welfare and stabilizing their job status. Identifying models for discovering and measuring accruals and studying its relationship with other variables of assessing performance of trading unit is regarded as useful tool for estimating will of management, identifying its consequences on financial statements, studying present and future status of institute by investors and assist them for making better decisions.

Problem Statement

Stolowy and Bereton (2004) refer to profit as one of the most important factors on making decision. Awareness of users for depending on profit assists them for making better decisions. Goal of offering financial report is submitting useful information to users. Information that is offered through financial report is accompanied with manipulation of

*Corresponding author. Email: hamidreza.kordlouie@gmail.com

management which decreases quality of profit and usefulness of decision making process. Whereas quality of profit is influenced by earning management; therefore, users of financial statements should depend on clarity and authenticity of information. With respect to this fact that investors are regarded as most important factors on making decision in relation to profit, this research has specific importance according to behavioral aspect. Studying literature related to earning management, indicates attempt of researchers for understanding this issue that why management manipulates profit, how to manage earning and what are consequences of this behavior. Answering to this question determines great section of empirical researches in the field of accounting and financial report. The question that is raised here is that, how is possible to support investors for earning management.

Scott et al. (2005) refers that targeted intervention of managers in the process of outer organizational financial report is used for obtaining specific goals of managers. Apart from profit reported by commercial unit, there are other 2 important variables including: cash obtained from operation and free cash flow for evaluating performance of economic unit. Cash obtained from operation is regarded as useful index for studying quality of reported profit. Managers invest aforesaid cash in projects with positive net current value through identifying suitable growth situations. According to theory of contradiction between benefits of managers and owners, managers are able to invest free cash flow on projects with negative net current value to supply their personal benefits within short term (Mehrani & Baghaei, 2009). Goal of this research is identifying and discovering earning management based on discretionary current accruals in fundamental metals, cement, lime and plaster and also studying relationship between current accruals as replacement for earning management with 2 variables including: cash obtained from activity and free cash flow as part of profit that is observed less than real amount.

Therefore, it is expected that through discovering earning management and identifying relationship of current accruals with variables effective in decision making of beneficiaries, investors have more recognition in relation to cash profit and report profit and better interpret information reported by managers; therefore, they will revise future quality of profit and balance their evaluation through earning management (Mashayekhi & Safari, 2005).

Theoretical Framework

Earning management

There are several definitions of earning management; in which, each researcher offers his own definition according to method of identifying and measuring earning management including:

Healy and Wahlen (1999) stated that earning management occurs when managers apply from personal judgments for offering financial report and this task is performed with the goal of misleading some investors in relation to real performance or influencing result of contracts concluded for reported numbers of accounting.

DeGeorge et al. (1999) refers to earning management as artificial manipulation of profit by management in order to obtain expected level of profit for making some specific decisions (estimating process of previous profit for anticipating future profit). In fact the principal motivation of earning management, is management for imagination of investors in relation to commercial unit

Chen (2009) refers that earning management is intentional action of management for obtaining specific goals within common accounting procedures. Available studies in relation to earning management are generally referred to accruals that are calculated through difference between profit and cash. By assuming that cash is not obtained from manipulation operation, the only way for manipulating profit is either increasing or decreasing accruals. The question that is raised is: what is level of increase or decrease in accruals and what is its normal level?

A fundamental factor for testing earning management in firms, is estimating will and comment of managers for determining profit. Accruals are divided into 2 classes including: optional (unexpected or extraordinary) and non-optional (expected or ordinary). Discretionary accruals are items that management has full control over them and is able to delay, eliminate, register or identify them. Nondiscretionary accruals are items that are estimated based on changes at fundamental economic performance of firm and management has no control over them. Dividing commitments to optional and non-optional confirms that total commitments are applied for offering better information for financial statement. Earning management literature determines that most researchers in this field believe that current accruals is regarded as suitable replacement for dependant variable of earning management.

Dechow & Dichev (2002) showed that most of manipulations are performed from current accruals (Ebrahimi Kordlar & Hassani Azardaryani, 2006). Therefore, this research measures earning management through capital inflow accruals or current accruals.

Free Cash Flow, Cash Obtained from Activity

If a firm has cash flow obtained from operational activities, it indicates ability of firm for creating cash flow. Yoon and Miller (2002) believe that cash obtained from operation is among factor that is less manipulated by commercial units; therefore, it is more real criterion for economic performance of commercial unit. Kimmel et al. (2004) believe that cash obtained from operational activity should be invested on new fixed assets so that firm keeps current level of operational activities and part of cash should distribute for obtaining customer satisfaction and their redemption. Therefore, cash obtained from operational activity is not regarded as ability of commercial unit for creation of cash flow. In order to evaluate ability of commercial unit, apart from cash obtained from operational activity, free cash flow is calculated and evaluated. Whereas profit is repeatedly manipulated by managers of commercial units, denying and manipulating in free cash flow and cash obtained from operation is very difficult. One of the most important models for measuring free cash flow is a model introduced by Lehn, Poulsen and Koplund model. Lehn and Poulsen believe that free cash flow is operational profit before depreciation cost after deducting payment for tax, interest, of preferred shareholders and profit of ordinary shareholders (Mehrani & Baghaei 2009). Copeland et al. (1995) defined free cash flow as: operational profit after tax in addition to non-cash cost upon deducting investment at cash flow, machineries, equipments and other assets.

Research Background

Friedlan (1994) show that initial public offering forms (IPO) apply from accruals increasing profit while announcement for subscribing securities. Battacharya (2003) carried out studies in relation to test of earning management while issuing initial public offering stock at Japanese firms and regarded accruals as representative of earning management. Results showed that managers reported their profit higher than real amount, have applied from positive accruals. He also added that managers use positive accruals for increasing profit at next years since issuing initial public offering stock (not in years before issuing initial public offering stock). Olsen & Ghosh (2009) showed that managers use from discretionary accruals for decreasing fluctuations of profit. Vincent and Schipper through studying quality of profit concluded that there is negative relationship between discretionary current accruals and cash flow obtained from operation (Hassanzadeh &

Kamranzadeh, 2009). Yoon and Miller (2002) by studying earning management at Korean firms concluded that such firms have accepted discretionary accruals especially when firm has poor performance in relation to cash obtained from performance. Their research showed that market shows positive reaction to changes of net profit and negative reaction to accruals. Chung et al. (2005) by observing information of American firms during 13 years and studying relationship between earning management and free cash flow in firms with low level of growth concluded that there is significant relationship between discretionary accruals and free cash flow. Research of Jaggi and Gul showed that there is direct relationship between discretionary current accruals and free cash flow in firms with low level of growth (Mehrani & Baghaei, 2009).

Smith (2009) carried out studies in an empirical analysis of Initial Public Offering (IPO) performance, the purpose of this study was to identify the best specified and most powerful method of abnormal performance detection and to apply this method to examine the price performance of IPOs. The findings were that (a) all of the matched-firm methods of abnormal performance detection were well specified and powerful (b) that the IPOs generated statistically significant abnormal price performances occurring in: (a) short-term analyses, (b) longer-term analyses, and (c) analyses of the lockup and quiet periods.

Cecchini et al. (2012) examine whether initial public offering (IPO) firms exercise discretion over an individual accrual account on the balance sheet - the allowance for uncollectible accounts - and an individual accrual account on the income statement - bad debt expense. They provide evidence that IPO firms have conservative, not aggressive, allowances in the annual periods adjacent to their stock offerings. In fact, the average IPO firm has an allowance that is over four-times leading write-offs. Armstrong et al. (2008) examines the properties of discretionary accruals around initial public offerings (IPOs). they find that discretionary accruals in the year of the IPO are not statistically different from zero. They find no evidence of a relation between several measures of discretionary accruals and IPO issue price, post-IPO equity values, insider trading profits, and executive compensation. They find that the well-documented negative correlation between issue-year discretionary accruals and future returns is an artifact of cash-flow mispricing, and that executive compensation in IPO firms places positive weight on the nondiscretionary components of earnings and no weight on the discretionary component.

Ebrahimi Kordlar and Hassani Azardaryani (2006) studied earning management while initial public offering stock in firms accepted by stock

exchange. Results showed that managers manage earning of firms in last year and IPO year. Mashayekhi and Safari (2005) studied role of discretionary accruals on earning management of firms. Results of their study showed that discretionary accruals have positive relationship with profit and negative relationship with cash obtained from operation. Pourheidari and Aflatouni (2006) studied motivation of facilitating profit at firms accepted by Tehran stock exchange and showed that managers to obtain this goal apply from discretionary accruals and income tax and misleading operational activities are among principal motives for facilitating profit through discretionary accruals.

Research Hypothesis

- Discretionary accruals current accruals in year before initial public offering stock increase profit more than next years
- Discretionary current accruals in year of initial public offering stock increase profit more than next years
- 3) There is reverse relationship between discretionary current accruals and cash obtained from activity
- There is significant relationship between discretionary current accruals and free cash flow.

Methodology

This research is correlation and according information obtained from type and number, is performed by analyzing cumulative data. This research applies from historical information of fundamental metal industry, cement, lime and plaster. To estimate parameters of Jones model, it is used from data related to year 1999-2009 (occurrence period) and to test balanced model of Jones it was used from data related to year 2001-2009 (estimation period with test). Therefore, this research falls within quasi empirical researches. To perform hypothesis test it was used from Regression method and ordinary least squares (OLS) at certainty level of 95%. Required information and data for this research is collected through 2 methods. To study literature and background of research, it was applied from library method, then required information and data are collected through following means: secondary evidences, studying documents available at library of

Tehran stock exchange including: financial statement of firms and Internet website of stock exchange organization. Sampling of this research is by systematic elimination method with applying following conditions and to select required data for estimating parameters of Jones model it was used from following properties: 1) To neutralize effect of earning management, firms accepted at Tehran stock exchange before year 1999 were observed in this study 2) Firms should not be among investment or broker firms 3) Firm during aforesaid year should not have changed its fiscal year 4) Fiscal year should be ended at the end of solar calendar (around 20th of March).

In order to select required sample for testing first and second hypothesis, the following conditions were observed: 1) Firms accepted in Tehran stock exchange in years 2006, 2007, 2008, 2009 active in the field of fundamental metals, cement industry, lime and plaster and had initial public offering stock for the first time. 2) Firm should not be among investor or broker firms; since, such firms less apply from discretionary accruals for earning management

Models and Variables of Research

For studying literature of earning management, many researchers apply from discretionary accruals as suitable replacement for dependant variable of earning management. In addition, most of them apply from balanced model of Jones as most powerful model for discovering earning management (Taker & Zarvin, 2006). This research applies from balanced model of Jones to estimate discretionary current accruals. Dechow and Dichev (2002) showed that most of misleading originated from current accruals (Ebrahimi Kordlar & Hassani Azardaryani, 2006). Therefore this research measures earning management through accruals capital inflow or current accruals. First of all it is applied from Jones to calculate β_1 and β_0 .

$$1) \frac{CA_{i,t}}{TA_{i,t}} = \beta_0 \left(\frac{1}{TA_{i,t-1}} \right) + \beta_1 \left(\frac{\Delta REV}{TA_{i,t-1}} \right) + \varepsilon_{i,t}$$

Then by using Jones balanced model and estimated parameters, discretionary current accruals are calculated as follows:

$$2) DCA_{i,t} = \frac{CA_{i,t}}{TA_{i,t-1}} - NDCA_{i,t}$$

$$3) \frac{DCA_{i,t}}{TA_{i,t-1}} = \frac{CA_{i,t}}{TA_{i,t-1}} - \beta_0 \left(\frac{1}{TA_{i,t-1}} \right) - \beta_1 \left(\frac{\Delta REV - \Delta AR_{i,t}}{TA_{i,t-1}} \right)$$

It is to be noted that sum of current accruals are calculated by using following 2 methods:

$$4) CA_{i,t} = OP_{i,t} - OCF_{i,t} \quad 5) CA_{i,t} = (\Delta TCA_{i,t} - \Delta CASH_{i,t}) - (\Delta CL_{i,t} - \Delta STD_{i,t})$$

In this model, CA is current accruals, DCA is discretionary accruals, NDCA is non-discretionary current accruals, ΔREV is changes of income, ΔAR is change in trading received accounts, TA is sum of assets, ΔCASH change in cash, ΔTCA is current

$$7) FCF_{i,t} = (OP_{i,t} - TAX_{i,t} - INTEP_{i,t} - PSDIV_{i,t} - CSDIV_{i,t}) / TA_{i,t-1}$$

$$8) DCA_{it} = \beta_0 + \beta_1 FCF_{i,t} + \varepsilon_{i,t}$$

FCF= is free cash flow, OP is operational profit before deducting tax, TAX is total tax paid by firm, INTEP is cost of paid interest, PSDIV is profit of preferred shareholders, CSDIV is profit of ordinary shareholders and TA is total book value of assets. In order to study relationship between discretionary

asset, ΔCL is current debit, ΔSTD is sum of current long term debit, OP operational profit before deducting operation and OCF cash obtained from operation. To study relationship between discretionary current accruals and cash, it is used from Regression model.

$$6) DCA_{it} = \beta_0 + \beta_1 CFO_{i,t} + \varepsilon_{i,t}$$

In this research in order to measure free cash flow, it is used from Lehn and Poulsen

current accruals and free cash flow, it is used from Regression relationship.

Research Findings

Table 1 show information related to descriptive statistics of data for estimating parameters of Jones model by using linear regression

Table 1. Descriptive properties for research data related to Jones model.

	Description	views	Mean	Median	Std. Deviation	Minimum	Maximum
1*	CA/TA	88	0/0170	-0/007	0/14859	-0/216	0/712
	1/TA	88	0/00003	0/00002	0/000002	0/000	0/00001
	REV/TA	88	0/1592	0/1295	0/2532	-0/51	0/7640
2**	CA/TA	99	0/00528	-0/025	0/121816	-0/224	0/716
	1/TA	99	0/000003	0/000002	0/000003	0/000	0/000011
	REV/TA	99	0/13809	0/108	0/1207	-0/059	0/437

* Fundamental Metal industry, ** lime and plaster and cement industry

Table 2. Descriptive statistics related to Jones model.

Industries	Coefficients	T	Sig.	Adjusted R Square	F	Sig.	Durbin-Watson
1*	β_0	-11438	-2/391	0/0195	0/2048	10/948	0/000
	β_1	0/2738	4/5463	0/000			2/23
2**	β_0	-16745	-2/765	0/0071	0/076	3/867	0/025
	β_1	0/294	2/18	0/0322			1/94

* Fundamental Metal industry, ** lime and plaster and cement industry

Interpreting results of regression analysis by using item 2

R² coefficient determines change of independent variable (income) on dependant variable (current accruals). Level of R² is fundamental metals industry is 20% in fundamental metals industry is 8%. Therefore, current accruals in fundamental metals industry is more influenced by cement, lime, plaster. Whereas significance level for coefficients of each

variable and comparing it with error level (0.05), significant coefficient at certainty level of 95% is accepted. F statistics and related significance level and comparing it with level of error (0.05) indicates significant regression model at certainty level of 95%. Statistics related to Durbin-Watson (its amount is between 1.5 to 2.5) indicates lack of correlation in components of regression error.

Results of test for first and second hypothesis

Positive discretionary current accruals are applied by firms to increase their profit. Negative discretionary current accruals refer to this issue that firm applies from policy of decreasing profit or there is no earning management. Generally it is expected that discretionary current accruals is negative; since, many

productive firms may have non-cash costs including: depreciation, cost of deficiency, expiration of doubtful demands. Previous researches such as the performed by Ebrahimi Kordlar and Hassani Azardaryani (2006) proved that discretionary current accruals more than 1.5% sum of assets, show earning management.

Table 3. Results of testing first and second hypothesis (fundamental metal industry).

Name of company	Period	Net profit	CFO	Total accruals	Discretionary current accruals	First hypothesis	Second hypothesis
KHozestan	t -1	1391558	2666027	-551321	-0/104	×	
KHozestan	t 0	2017998	164515	1218133	0/0473		✓
KHozestan	t +1	211023	342825	2655268	0/155		
Iranian Mes	t -1	2672846	2624730	853919	-0/0097	×	
Iranian Mes	t 0	6874843	5672950	2181934	0/025		✓
Iranian Mes	t +1	8851397	6661364	3517191	0/139		
Isfahan Folad	t -1	5565286	2958105	2576312	0/1003	✓	
Isfahan Folad	t 0	6114286	8163783	-543812	-0/0834		×
Isfahan Folad	t +1	10589942	8783098	4632284	-0/066		
KHorasan	t -1	531422	600487	-69065	-0/1796	×	
KHorasan	t 0	704870	600487	286360	0/01833		✓
KHorasan	t +1	408395	136299	477752	0/09576		

Whereas negative level of discretionary current accruals in year before initial public offering stock in Khuzestan Steel Co, National Iran Copper Industries Co, Khorasan Steel Complex, H0for these firms is accepted and zero one is rejected. Positive level of current accruals in year before initial public offering stock in Isfahan Steel Co. rejects H0and accepts one hypothesis. Studying current accruals in the first year

of initial public offering stock in Isfahan Steel Co. level of discretionary current accruals is negative; therefore, H0for firms (Khuzestan, Iran Copper Industries, Khorasan Steel Complex) with positive current accruals is rejected and H1is accepted. Negative discretionary current accruals for Isfahan Steel Complex in the year of initial public offering stock for H0is accepted and H1is rejected.

Table 4. Results of testing first and second hypothesis (cement, lime and plaster industry).

Name of company	Period	Net profit	CFO	Total accruals	discretionary current accruals	First hypothesis	Second hypothesis
Dashtestan	t -1	116295	120722	18736	0/0558	✓	
Dashtestan	t 0	164837	204117	-45624	-0/0498		×
Dashtestan	t +1	271703	351361	-87322	-0/1233		
Kordestan	t -1	143586	170969	-5742	-0/0463	×	✓
Kordestan	t 0	192112	103900	137686	0/1134		
Kordestan	t +1	267830	219213	81440	0/1243		
Abik	t -1	267727	273192	-3938	-0/0469	×	
Abik	t 0	410019	379973	45012	-0/0125		×
Abik	t +1	442466	299031	200276	0/03571		
Farse no	t -1	305214	260379	20062	0/0114	×	
Farse no	t 0	223288	273068	-11079	-0/0062		×
Farse no	t +1	224314	304913	-64334	-0/055		

Negative discretionary current accruals for Kurdistan Cement, Abik Cement, Fars-no Cement Co. in the year of initial public offering stock for H_0 is accepted and H_1 is rejected. Positive discretionary current accruals in the year of initial public offering stock for Dashtestan Cement Co. rejects H_0 and accepts H_1 . Discretionary current accruals in the first year of initial public offering stock at Kurdistan Cement Co. is positive; therefore, Z_0 for negative discretionary current accruals is accepted and Z_1 is rejected.

Results of Third Hypothesis

Relationship between discretionary current accruals and cash obtained from CFO operation is directly tested through studying regression of discretionary current accruals against CFO and some variables. This relationship is shown through following model.

$$DCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t} + \varepsilon_{i,t}$$

Table 5. Descriptive statistics- relationship between discretionary current accruals and cash obtained from operation.

Industries	Variables	views	Mean	Std. Deviation	Minimum	Maximum
1*	DCA	72	0/007	0/132	-0/26	0/59
	CFO	72	64	106/68	-52	566
2**	DCA	81	0/31	0/856	0/000	0/64
	CFO	81	147/47	78/35	45	619

*Fundamental Metal industry, **lime and plaster and cement industry

It is to be noted that cash obtained from operation in aforesaid figure are reported in billion RLS

Table 6: Regression analysis for relationship between discretionary current accruals and cash obtained from operation.

Industries	Variables	Coefficients	T	Sig.	Adjusted R square	F	Sig.	Durbin-Watson
1*	C	β_0	0/038	4/146	0/000	0/261	28/77	0/003
	CFO	β_1	-2/796	-91	0/000			2/070
2**	C	β_0	0/078	2/664	0/017	0/494	23/315	0/005
	CFO	β_1	-1/03	-5/67	0/001			1/74

*Fundamental Metal industry, **lime and plaster and cement industry

Interpreting results of regression analysis by using figure 6 is as follows:

R^2 coefficient determines change of discretionary current accruals (dependant variable) on cash obtained from operation (independent variable). Level of R^2 is fundamental metals industry is 26% in cement, lime and plaster is 50%. Therefore, discretionary current accruals in cement, lime and plaster industry is more influenced by cash obtained from operation. Whereas significance level for coefficients of each variable and comparing it with error level (0.05), significant coefficient at certainty level of 95% is accepted. F statistics and related

significance level and comparing it with level of error (0.05) indicates significant regression model at certainty level of 95%. Statistics related to Durbin-Watson (its amount is between 1.5 to 2.5) indicates lack of dependency at components of regression error. Therefore, it is possible to claim that research hypothesis i.e. lack of relationship between discretionary current accruals and cash obtained from operation is confirmed. Whereas negative coefficient of cash obtained from operation, both industries show reverse relationship between these 2 variables.

Results of Fourth Hypothesis

Table 8: Descriptive statistics of data- testing fourth hypothesis.

Industries	Coefficients	N	Mean	Std. Deviation	Minimum	Maximum
1*	FCF	72	0/177	0/048	0/09	0/25
2**	FCF	81	0/0783	0/055	-0/03	0/20

*Fundamental Metal industry, **lime and plaster and cement industry

Table 9. Regression analysis for relationship between discretionary current accruals and free cash flow.

Industries	Coefficients	T	Sig.	Adjusted R Square	F	Sig.	Durbin-Watson
1*	β_0	C	-4/159	0/000	0/269	17/96	0/000
	β_1	FCF	4/239	0/000			
2**	β_0	C	-2/471	0/017	0/113	6/881	0/011
	β_1	FCF	2/623	0/011			

* Fundamental Metal industry, ** lime and plaster and cement industry

Interpreting results of regression analysis by using this figure are including

R^2 coefficient determines change of discretionary current accruals (dependant variable) on cash obtained from operation (independent variable). Level of R^2 is fundamental metals industry is 30% in cement, lime and plaster is 11%. Therefore, discretionary current accruals in fundamental industry are more influenced by free cash flow. Whereas significance level for coefficients of each variable and comparing it with error level (0.05), significant coefficient at certainty level of 95% is accepted. F statistics and related significance level and comparing it with level of error (0.05) indicates significant regression model at certainty level of 95%. Statistics related to Durbin-Watson (its amount is between 1.5 to 2.5) indicates lack of dependency at components of regression error. Therefore, results of fourth hypothesis show that there is direct significant relationship between discretionary current accruals and free cash flow and we can claim that free cash flow is regarded as motive for earning management.

Conclusion

Results of first and second hypothesis show that; preference of managers for applying discretionary current accruals in order to increase profit in last year and same year of; is different in different industries. Reason of this difference is elements creating cash flow, pricing products, influencing governmental policies and market condition. This research show that managers of initial public offering stock firms in fundamental metals industry are more preferred to use discretionary current accruals to increase profit than cement, lime and plaster industry. Results of third hypothesis showed that managers increase profit through discretionary current accruals while decreasing cash obtained from operation which reveals poor performance of commercial trading. To solve this problem managers increase profit through discretionary accruals. Results of this research are compatible with studies of Yoon and Miller (2002)

Baradaran Hassanzadeh and Kamranzadeh Ezmareh (2009) and many other studies. In addition, results of this research showed that discretionary current accruals in cement lime and plaster industry are more influenced by changes of cash flow. Results of fourth hypothesis showed that there is direct significant relationship between earning management and free cash flow. Free cash flow is regarded as motive for earning management. Results of this research are compatible with studies of Chung et al. (2005). In addition results of research showed that discretionary current accruals in fundamental industry more than cement, lime and plaster is influenced by free cash flow.

The last point is that Tehran security market is semi isolated market and its reaction to the global movements is not very tangible and on time, so it is not easy to expand the result of the this market to international and other emerging ones.

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