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Conservatism and Profit Sharing Regarding Cash Surplus: Evidence from Tehran Stock Exchange

Masome Sadat MALDAR
Department of Accounting, Payame Noor University, PO BOX 19395-3697 Tehran, Iran.

Azam POURYOUSOF*
Department of Accounting, Payame Noor University, PO BOX 19395-3697 Tehran, Iran. Email: puryusof@gmail.com.

Amene ROODBARI
Department of Accounting, Payame Noor University, PO BOX 19395-3697 Tehran, Iran.

ABSTRACT

Managers often supervise profits to increase their interests. Therefore, stakeholders of a company consider profit management to be undesirable and try to limit the managers' powers by intensifying supervision. In this regard, shareholders consider conservatism a regulating, governing tool to limit profit management. The present study aimed to evaluate the effect of conservatism on the profit sharing regarding cash surplus in the companies listed on the security exchanges in Iran. Sample population consisted of 118 companies, which were listed on Iran's stock exchange during 2010-2014. Research hypotheses included examining the association between conservatism and profit sharing and correlation between conservatism and profit sharing in the companies with a high cash surplus compared to those with a low cash surplus. Research data were tested using the regression model by a panel data method in the Eviews and Stata software. In this research, the model first was fitted for all the sample companies, and the inverse association between conservatism and profit sharing was confirmed. Moreover, the companies were divided into two groups using the residues of cash regression, and the model was refitted for both groups. Our findings confirmed the inverse correlation between conservatism and profit sharing in the companies with high cash surplus, while such association was not confirmed in the companies with low cash surplus.

JEL Classification: H62; Q39.

Keywords: Conservatism; Profit Sharing; Cash Surplus.

* *Corresponding author.*

1. INTRODUCTION

According to the theoretical foundation of financial reporting, accounting conservatism is one of the features that enhance the reliability of accounting information. Hence, accounting conservatism plays a pivotal role in the usefulness of the information needed for decision-making, particularly in the assessment of managerial duties. With the development of a common conceptual framework for the US and international accounting standards board, accounting conservatism has been eliminated from the qualitative characteristics of accounting information (Bani Mahd et al., 2014). Abbasi et al., (2016) defines accounting conservatism as an essential feature for improving the quality of accounting information. Accounting conservatism delays the identification of profits until its realization, thereby enhancing the quality of financial statements. The primary goal of financial accounting is to provide useful information for investors in order to predict the performance of the economic unit. Profit report helps the society's economy through various channels, such as providing a basis for calculating taxes, assessing the success of a company's performance, determining the amount of sharable profits, managing the distribution of profits, and managing a single economic unit. Furthermore, since the value of a company depends on its current and future profits, determining profits is of paramount importance (Kurdestani & Hedayati, 2010).

Managers often supervise profits in order to increase their interests. Profit management reduces the accuracy and validity of profit messages and leads to the distrust of the individuals outside the organization, which may also cause information asymmetry and low investment efficiency. Not only does profit management conceal the company's true performance, but it also masks the real growth of a company's profits and earnings, which are significant predictors of the company's future growth. In this regard, shareholders consider conservatism as a regulating, governing tool to limit the management of accrual-based earnings. Conservatism is the result of the asymmetric requirements for identifying the economic profits and losses in the financial statements of a company, which help accountants to ascertain and reflect economic losses earlier than the profits (Ansari et al., 2013). Profit sharing policy is one of the most vital financial decisions of every company, which variably influences the shareholders' interests. As profitability declines, managers will have a higher tendency to report profits. Previous studies have indicated that conservative accounting reduces the company's profits and accumulated earnings, while protecting the creditors by limiting the profit sharing. The association between conservatism and profit sharing is known as the 'mechanical effect'. In the current research, the correlation between conservatism and profit sharing was studied beyond the mechanical effect.

One of the reasons that shareholders are willing to share profits is the withdrawal cash surplus from the company to limit the opportunistic behavior of managers in the attempt to expand the company. By identifying losses sooner than the profits, conservatism prevents managers from expanding the company and implementing projects with a negative net present value, thereby reducing the need for profit sharing, as well as the conflicts of interest between the managers, owners and creditors. Therefore, it is expected that there will be a stronger association between conservatism and profit sharing in the companies where there is more conflict between the managers, creditors and owners (e.g., cash surplus and external monitoring). The present study aimed to evaluate the effect of conservatism on profit sharing in terms of the cash surplus of the companies listed on Iran's stock exchange during 2010-2013.

2. LITERATURE REVIEW

Various definitions have been proposed for accounting conservatism. Most scholars have mentioned the definition by Mehrani et al., (2014) regarding conservatism in discussing the issues related to asset valuation. Accordingly, accounting conservatism is defined as the expectation that the reported net asset value of a company would be less than its market value in the long run. Moreover, the study conducted by Mashayekhi et al., (2009) describes accounting as the difference between the market value and book value of the assets.

Quality of earnings is defined as the potential for earning growth and likelihood of realizing future profits. In other words, the value of a share does not only depend on the profit of the company's annual share, but it also depends on our expectation of the company's future, its profitability in the coming years and reliability of the future profits. Profit smoothing, which is referred to as profit management in the accounting literature, involves the measures taken to reduce the fluctuations of the reported accounting earnings. Rate of earnings and its fluctuation is important from the viewpoint of the company's shareholders and affects the company's stock value. Bani Mahd & Baghbani (2009) conducted a study entitled "Agency Conflict, Dividend Payout and Direct Financial Conservative Reporting Interests for Shareholders" and observed that conservatism has a negative significant effect on dividend payout, and the effect intensifies at a high level despite some agency issues in a company; such examples are the lack of a corporate governance mechanism and cash surplus.

Ansari et al. (2013) performed a research entitled "Accounting Conservatism and Constraints of Earning Management" and reported that conservatism reduces the accrual-based earning management and enhances the real earning management. Furthermore, in another research entitled the "Role of Conservatism in Monitoring the Investment Decision-Makings of Managers", Etemadi et al., (2012) concluded that in the companies with conservative accounting practices, future cash flows and profit margin are higher, and magnifying the changes in the special stocks is lower compared to non-conservative firms. On the same note, Khadami Pour & Turkzadeh Mahani (2011) carried out a study entitled the "Earnings of Timeliness Asymmetric and Distribution of Earnings among Shareholders" and concluded that high conservatism diminishes the distribution of profits among shareholders. Therefore, conservatism could protect the interests of creditors against shareholders. According to the research by Etemadi et al. (2012) entitled "Investigating the Role of Conservative Accounting in Reducing the Conflict between Creditors and Shareholders during the Implementation of the Policy of Profits Sharing and Reducing Debt Costs", conservatism could effectively decrease the conflicts of interest caused by the profit sharing policy between shareholders and creditors.

Therefore, higher conflicts of interest is associated with the higher conservatism in the company's accounting procedures, while higher conservatism would lower the cost of the company's debt. In this regard, Abbasi (2016) investigated the impact of cash surplus on the effect of accounting conservatism for dividend payouts during 2008-2012. Research findings show that conservatism had a negative significant effect on dividend payouts in the companies with high cash surplus, while in the companies with low cash surplus, conservatism had no significant effect on dividend payouts. On the other hand, Mehrani et al. (2013) investigated the correlation between conservatism in financial reporting and cash holdings, and the findings showed no significant effect on the amount of cash holdings. Furthermore, larger companies and companies with other assets alternative to cash were reported to hold less cash, whereas companies with more investment opportunities had more cash. In their research entitled the "Impact of Earning Management and Capital Structure on Earning Conservatism", Etemadi and Farajzadeh (2012) observed that firstly, earning management, regardless of its direction, results in the increase of conservatism. Meanwhile, companies that take measures to decrease earning management report a more conservative profit, which suggests the higher rate of conservatism. Moreover, companies that take measures to increase earning management report a lower rate of conservatism.

In the study by Mashayekhi et al. (2009) entitled the "Effect of Accounting Conservatism on the Sustainability and Distribution of Profit", sum of the accrual-based operating in the model proposed by Guillay and Hin (2000) was used to measure conservatism. According to the findings, based on the agency theory, increased conservatism diminished the distribution of dividends. Also, no empirical evidence suggested that the sustainability of profit would decrease with higher conservatism. Based on the theoretical foundations and similar studies mentioned in the previous section, the research hypotheses were developed, as follows:

H1: Conservatism affects profit sharing.

H2: Amount of cash surplus influences the correlation between conservatism and profit sharing.

H3: In the companies with more cash surplus, rates of conservatism and profit sharing are higher compared to the companies with less cash surplus.

3. METHODOLOGY

This was a retrospective-descriptive study, performed based on the data collection. It is also noteworthy that it was a post-event research based on the type of the hypotheses, and the study was conducted using the casual method and regression model for data analysis. In the present study, we used the model proposed by Givoly & Hyan (2000) to measure the conservatism index of accounting. In addition, the mean conservative index during the past three years was used. Conservatism is equal to the proportion of the ratio of operation accruals to the mean assets of the company within the past few periods (t, t-1, t-2). Therefore, the conservative (con) was obtained based on the following equation:

$$CON = - NI + DP - OANCF - \Delta RE - \Delta INVT - \Delta XPP + \Delta AP + \Delta TXP \quad (1)$$

Where NI is the net profit, DP represents the depreciation expense, OANCF is the operational cash flow, ΔRE denotes the changes in the account receivable, ΔINVT shows the changes in the inventories, ΔXPP is the changes in prepayments, ΔAP denotes the changes in the account payables, and ΔTXP is the changes in the tax payable. Conservatism and Profit Sharing. To investigate the association between conservatism and profit sharing, the following model:

$$PAYOUT_{i,t} = a_1 CON_{i,t-2\sim T} + controls + e_{i,t} \quad (2)$$

Where $Payout_{i,t}$ is the distributed earnings for the shareholders in the t period, and CON represents the accounting conservatism, which is calculated for the periods of t, t-1 and t-2. To investigate this correlation, two criteria of profit sharing were used, including the DVM-1, which shows the dividends regarding the market price; this criterion examines the total effect of conservatism on profit sharing. The second criterion was DVE-2, which shows the dividends regarding the net income before extraordinary items and neutralizes the effect of the company's profitability on profit sharing. Different factors affect the dividend of companies, and to eliminate the effect of these factors, we defined control variables, as follows:

- Company's Performance: Companies with poor performance are less willing to venture for profit sharing.

- Company's Life: Companies that are older are more likely to opt for cash profit sharing.

- Sales Changes Compared to Previous Periods: This factor was considered as a control variable for controlling the effect of the company's performance on profit sharing.

- Logarithm of Total Assets: This factor was considered as a variable to control the company's size.

- Financial Leverage**:** Debt directly affects profit sharing. However, In the present study, we attempted to discern the association between conservatism and profit sharing, which is beyond the effect of the debt contracts.

By considering the aforementioned control variables, the relationship above can be expanded, as follows:

$$PAYOUT_{i,t} = \alpha_1 CON_{i,t-2\_t} + \alpha_2 SRVOL_{i.t} + \alpha_3 RETURN_{i,t} + \alpha_4 RETE_{i,t} + \alpha_5 BM_{i,t} + \alpha_6 LOGTA_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 CASH_{i,t} + \alpha_9 LOGAGE_{i,t} + \alpha_{10} GROWTH_{i,t} + \alpha_{11} LEV_{i,t} + e_{i,t} \quad (3)$$

Where SRVOL is the standard deviation of the monthly returns of the stocks within the past 36 months, RETURN is the return on the surplus of the share compared to the market return over the past 36 months, RETE denotes the ratio of the accumulated earnings to the company's book value at the beginning of the period, BM represents the ratio of the company's book value to its market value at the beginning of the period, LOGTA shows the logarithm of the company's total assets at the beginning of the period, ROA is the ratio of income before extraordinary **items** to all the assets, CASH denotes the ratio of cash plus short-term investments to the total assets, LOGAGE is the logarithm of the number of the years in the stock exchange plus one year, GROWTH represents the sales changes compared to sales of the previous period, and LEV is the ratio of the total current debt and long-term debt of the first period to the market value of the first period.

In the case of increased surplus cash, the stockholders' put more pressure on the managers to pay cash earnings. Consequently, conservatism is expected to play a more significant role in eliminating this contradiction.
To determine the surplus cash, as follows:

$$CASH_{i,t} = \alpha_1 BM_{i,t} + \alpha_2 LOGTA_{i,t} + \alpha_3 CFO_{i,t} + \alpha_4 WC_{i,t} + \alpha_5 SIGMA_{i,t} + e_{i,t} \quad (4)$$

Where CASH is the ratio of the sum of cash and current investments to the total assets in the beginning of the period, BM denotes the ratio of the book value to the market value in the beginning of the period, LOGTA represents the logarithm of the total assets at the beginning of the period, CFO is the ratio of delayed operating cash flows to the assets, WC shows the ratio of the working capital to the assets at the beginning of the period, and SIGMA is the mean standard deviation of the operating cash flow for similar industries over the past five years. In this model, the error component was equal to the surplus cash of the company. Based on their surplus cash, the selected companies were divided into two groups: companies whose surplus cash exceeded the median and companies whose surplus cash was less than the median. The first group was expected to show a stronger correlation between conservatism and profit sharing compared to the second group.

Statistical sample population of the study included the companies listed on Tehran Stock Exchange, which had been investigated during 2010-2014. Samples were selected using the systematic elimination technique in accordance with the following constraints:

1. Investment, financial intermediation and insurance companies were excluded.

2. The required information had to be available at the time of research.

3. The financial year of the companies had to have ended in March.

4. RESULTS AND DISCUSSION

Descriptive statistics of the studied variables are presented in Table 1, which also shows the qualitative statistics of the variables.

Table 1. Descriptive Statistics

	BM	CASH	GROWTH	LNTA	RETE	RETURN	ROA	SRVOL	CONSERV	DVE	DVM
Average	2/18	0/07	0/24	13/8	0/54	0/21	136	14/9	/01	1/1	/12
Middle	1/45	/04	0/2	13/6	0/45	0/34-	112	13/8	/01	1/61	0/1
Maximum	35/9	/05	2/7	18/8	38	26/7	631	52/7	/08	254	0/95
Minimum	0/1	0	-0/09	10/1	-10/5	2/78-	-340	3	-0/08	0	0
Standard devia	2/6	/07	0/35	1/47	1/84	2/51	129	6/24	/02	2/42	0/12
Skidding	5/5	2/6	1/5	0/79	15	3/96	0/73	1/45	/08	6/64	2/42
Elongation	48/7	124	10/7	3/9	308	28/6	4/76	7/92	7/5	536	12/8
Total	1286	391	143	8161	321	123	80367	8788	5/6	649	70/8
Total of deviation	4072	3	72	1268	2000	3725	98737	22926	/14	3437	8/65
observations	590	590	590	590	590	590	590	590	590	590	590

For instance, the DVM variable with 590 views during five years had the maximum, minimum and mean values of 0.94, 0 and 0.11, respectively, while the value of the coefficient of skewness for DVM was 2.40. In addition, data density was more inclined to the right, and the relation of mean> median>mode was dominant; the value of the Kurtosis for this variable was estimated at 12.87, indicating that the Kurtosis and height of the distribution of this variable were longer than the normal standard distribution. Similarly, descriptive statistical values of the other variables were interpreted as well. By comparing the results, it was clear that among the studied variables, the highest standard deviation belonged to the data of the variables of return on assets (ROA), whereas the lowest standard deviation belonged to the conservative variable (CONS).

Table 2. Correlation Matrix of Control Variables for Two Models

	BM	CASH	GROWTH	LNTA	RETE	RETURN	ROA	SRVOL	CONSERV
CONSERV	/2	-/05	0/15	/03	/02	/03	-0/22	/01	1
SRVOL	-/03	0	/13	-/01	-/02	/43	0/04	1	/01
ROA	-/46	/31	/23	/07	/01	/32	1	-0/04	-0/22
RETURN	-/22	/11	/14	-/01	/0	1	/32	/43	/03
RETE	/04	/01	/06	0	1	/01	/01	-0/02	/02
LNTA	/13	-/01	-/02	1	0	-/01	/07	-0/01	/03
GROWTH	-/08	/02	1	-0/02	/06	0/14	/02	/13	/15
CASH	-0/13	1	/02	-0/01	/01	0/11	0.31	0	-0/05
BM	0	-0/13	-0/08	/13	/04	-0/22	-0/46	-0/03	/02

In the current research, we used the model proposed by Bani Mahd & Baghbani (2009) to evaluate the relationship between conservatism and profit sharing. In this model, there are two criteria for profit sharing, including the ratio of the dividends to the market price (DVM) and ratio of the dividends to the net income before extraordinary items (DVE). According to the table, numerical value of the correlation-coefficient for the control variables was low in the two models (DVM in the first model and DVE in the second model were the dependent variables); therefore, it could be stated that there is no linearity in the model. To investigate the other underlying assumptions of the model, Woldrich test was used for the first order autocorrelation, LR test was performed for the variance heterogeneity, Chaw and Hausman model was used to examine the constant effects, and Lagrange test was applied to investigate the random effects.

Table 3. Diagnostic Tests of Two Models

The dependent variable:DVE			The dependent variable: DVM			Teat
position	Possibility	The statistics	position	Possibility	The statistics	
positive	0.00	1570.59	positive	0.00	499.64	variance heterogeneity
positive	0.58	0.298	positive	0.19	1.719	first order autocorrelation test
Fixed effects are rejected	0.23	1.10	Fixed effects are accepted	0.003	1.46	Chaw test
Random effects are rejected	0.81	0.05	Random effects are accepted	0.04	3.85	Lagrange test
Compiled least squares method	-	-	Fixed effects are accepted	0.00	30.01	Hausman test

In the research model for the first hypothesis, the probability obtained in the Goodrich test was more than 0.05, and there was no first order autocorrelation in any of the models. Moreover, in the LR test, the obtained probability value was less than 0.05, and both models had variance heterogeneity. According to the Chow, Lagrange and Hausman tests, the fixed effects had to be used for both models.

Table 4. Estimation of Two Models

The dependent variable:DVE			The dependent variable: DVM			variables
meaning	statistics t	Coefficient	meaning	statistics t	Coefficient	
-	-	-	-/308	-1/02	-/08	C
/583	-/54	-/69	/028	-2/2	-/35	CONSERV
/034	-2/12	-/006	0	-4/6	-/002	SRVOL
0	4/36	/057	/098	-1/65	-/001	RETURN
/042	2/03	/012	0	4/63	/001	RETE
0	14/24	/1	/002	3/09	/02	LNTA
0	-4/57	-/014	/8	-/24	-7/29	ROA
0	4/01	1/87	0	3/64	/12	CASH
0	-9/66	-/77	0	-13/47	-/08	GROWTH
0	-6/25	-/11	0	-7/57	-/012	BM
.29			.73			R^2
.28			.65			R^2justified
1.75			2.35			Durbin-**Watson**

As can be seen, in the first model, all the variables were statistically significant, with the exception of the fixed coefficient and variables of surplus stock return to market ratio and ROA. In the second model, all the variables were statistically significant, with the exception of the conservative variables. In addition, coefficient of determination was high in the first model, whereas it was low in the second model. Also, since the Durbin-Watson statistical value was close to 2, there was a serial autocorrelation between the components in both models.

Table 5. Excess Cash Regression Model Tests

The dependent variable: DVM			Teats
position	Possibility	The statistics	
positive	1	-627.07	variance heterogeneity
positive	0	11.547	first order autocorrelation test
Fixed effects are accepted	0	3.65	Chaw test
Random effects are accepted	0	125.45	Lagrange test
Fixed effects are accepted	0.01	13.26	Hausman test

Table 6. Excess Cash Regression Model

meaning	The statistics	Coefficient	variables
0/0009	-3/33	-0/154218	C
0	4/40	0/014636	LnTA
0/0114	-2/54	-/000892	BM
0	8/92	0/114194	CFO
0	6/13	0/071459	WC
0/0011	-3/28	-1/14	SIGMA
0	4/64	0/096478	AR(1)
0.86			R^2
0.81			R^2justified
2.34			Durbin-**Watson**

Table 7. Diagnostic Tests of Two Models

The dependent variable:DVE			The dependent variable: DVM				
Teats	Possibility	statistics	position	Possibility	statistics	TEST	
positive	0	805/2	positive	0	194/12	variance heterogeneity	Companies with more cash surplus
negative	/64	/22	negative	/08	3/052	first order autocorrelation test	
Fixed effects are Rejected	/36	1/06	Fixed effects are accepted	/005	1/65	Chaw test	
Random effects are Rejected	/74	/1	Random effects are Rejected	/08	2/98	Lagrange test	
Compiled least squares method	-	-	Fixed effects are accepted	/01	20/45	Hausman test	
positive	0	798/8	positive	0	314/35	variance heterogeneity	Companies with low cash surplus
negative	/54	/036	negative	/216	1/55	first order autocorrelation test	
Fixed effects are Rejected	/19	1/18	Fixed effects are Rejected	/089	1/3	Lagrange test	
Random effects are Rejected	/58	/3	Random effects are Rejected	/05	0/44	Hausman test	
Compiled least squares method	-	-	Compiled least squares method	-	-	Lagrange test	

To test the second research hypothesis, the model proposed was fitted, and the error components were obtained. Afterwards, the companies were categorized based on these components, and the previous model was re-fitted for the two groups (higher and lower than the median). As can be seen, the model had first-order variance heterogeneity, and the autocorrelation and fitting were performed using the fixed effects method. In the mentioned model, the error component was equal to the company's surplus cash.

After fitting the model, time series of the residues was obtained and classified from small to large. Based on the obtained median, the series was divided into two groups.

Table 8. Estimation of Two Models

The dependent variable:DVE			The dependent variable: DVM			variables	
meaning	The statistics	Coefficient	meaning	The statistics	Coefficient		
0/13	-1/49	-2/42	0/0082	-2/66	-0/37	C	Companies with more cash surplus
0/0006	-3/47	-0/014	0/0092	-2/62	-0/56	CONSERV	
0/0001	3/95	0/07	0	-4/87	-0/004	SRVOL	
0/18	1/33	0/008	0/76	0/29	0/0008	RETURN	
0	-4/91	-0/095	0/0001	3/95	0/001	RETE	
0	12/47	0/11	0	-7/91	-0/012	BM	
0/0001	-4/06	-0/018	0/0001	7/08	0/043	LNTA	
0/001	3/32	2/06	0/72	0/35	-0/0002	ROA	
0	-6/82	-0/7	0/0001	4/03	0/22	CASH	
0/13	-1/49	2/42	0	-10/77	-0/09	GROWTH	
0/3			0/72			R^2	
0/28			0/64			R^2justified	
1/96			2/31			Durbin-**Watson**	
0/23	0/73	1/25	0/06	1/87	0/19	C	Companies with more cash surplus
0/46	1/86	0/009	0/35	-0/92	-0/17	CONSERV	
0/062	1/37	0/02	0/24	-1/17	-0/00008	SRVOL	
0/17	-3/49	-0/04	0/01	-2/37	-0/003	RETURN	
0/0005	-6/63	-0/16	0/23	2/33	0/004	RETE	
0	9/75	0/08	0	5/13	-0/012	BM	
0	-2/35	-0/007	0/81	-0/23	-0/001	LNTA	
0/019	3/28	1/4	0/81	-0/23	-8/02	ROA	
0/001	-6/73	0/77	0/51	0/64	0/03	CASH	
0	0/73	1/25	0	-8/24	-0/06	GROWTH	
0/3			0/72			R^2	
0/28			0/63			R^2justified	
1/83			2/38			Durbin-**Watson**	

It was expected that in the companies with more cash surplus, there would be a stronger correlation between conservatism and profit sharing. According to the table above, there was a strong negative association between conservatism and profit sharing in the companies with more cash surplus, with DVM as the dependent variable. However, when DVE was the dependent variable, the correlation was negative and not as strong as that of the DVM. It is also noteworthy that in the companies with low cash surplus, the conservative variable coefficient had no statistical significance.

5. CONCLUSION

The present study aimed to examine the conservative effect of profit sharing in terms of the cash surplus in the listed companies on Tehran Stock Exchange using the panel data model and annual data during 2008-2011. Several studies have focused on conservatism and profit sharing; however, there no findings on the impact of cash surplus on the mentioned correlation. Therefore, after presenting the qualitative statistics of the variables in the model, a

general estimation was initially performed on the model regardless of the cash surplus, which confirmed the negative effect of conservatism on profit sharing.

Afterwards, cash surplus regression was fitted, and the companies were divided into two groups of high cash surplus and low cash surplus. The main model was fitted to both groups in accordance with the diagnostic tests. Results of model estimation indicated an inverse correlation between conservatism and profit sharing in the companies with high cash surplus, while in the companies with low cash surplus, no association was observed between conservatism and profit sharing. Findings of the present study are in line with the results obtained by Bani Mahd & Baghbani (2009) and Abbasi et al., (2016), who concluded that there is a negative and significant association between conservatism and profit sharing, which is stronger in the companies with a high cash surplus.

Investors and financial analysts and other users can evaluate their preferred companies for investment according to the results of the current research and decide about the reliance of the items of financial statements for those companies, as well as their ability to decide about the dividend payouts. In the view of the negative, significant association between conservatism and profit sharing in the companies with high surplus cash, investors and creditors can determine the amount of cash surplus as an influential factor in the severity of agency issues in the decision-making regarding the terms of contracts and prediction of prices. Furthermore, according to the results of our study, audit companies can obtain information on the current state of the company and plan to advance goals and prepare their audit plan in order to conduct a high-quality audit.

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