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## The Amount of Earnings Per Share's Adjustment and Earnings Management

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### Abstract

**Purpose** - Our goal was to determine whether there is a relationship between actual profits' deviation from the profits expected in earnings per share's adjustment announcements and the degree of apparent earnings management in annual financial statements.

**Research design, data, and methodology** - The samples consisted of 133 companies from ten industries. The companies were selected among those listed in the stock exchange, and their data were examined covering the two-year period from 2008 to 2010. Tests were conducted using a regression model and SPSS statistical software.

**Results** - The findings indicate the following. There is no significantly positive relationship among the last earnings per share's adjustment forecast, the first earnings forecast per share, and earnings management. Moreover, the amount of the latest earnings per share's adjustment forecast relative to its first forecast is not associated with the companies' discretionary accruals items. Finally, the hypothesis that a relationship exists between companies' latest adjustments of their earnings per share and earnings management was tested the results indicate that there is no such relationship.

**Conclusions** - The study's results suggest that the amount of earnings per share's adjustment is not a motivation for earnings management.

**Keywords** : Earnings Per Share, Earnings Per Share's Positive Adjustment, Earnings Per Share's Negative Adjustment, Earnings Management.

**JEL Classifications** : M41, N25, O16.

### 1. Introduction

Since many analysts and investors, decided according to information provided by the companies and they important to know

benefits anticipated by managers in evaluating companies and amount influencing share price (Koch, 2001). Companies are required to incorporate any important change in their business situation in forecasting earnings per share rapidly that this change in anticipation can be followed earnings per share's positive or negative adjustment and therefore cause different impacts and reactions the market. Also company managers try to the latest earning of earnings per share to be closer to actual earnings per share and their final estimate of earning per share to have lower deviation that the first estimate, that investors and analysts to rely it more confidently. Since investors react to good news soon, it seems that earnings per share 's positive adjustment can be one of the good news and conversely a earnings per share 's negative adjustment to be seen as bad news, if that it may isn't always the case and investors don't enjoy from continuous earnings per share's positive adjustment and to be interested in less positive adjustment (Meyers & others, 2006), because to continuous positive adjustment of earnings per share representing cost is greater of company capital and when earnings per share isn't acceptable growth and cause a earnings negative adjustment, investors can't tolerate and still expect to a positive adjustment thus earnings negative adjustment will follow reduction of companies earnings and capital (Jensen, 2005). Some evidence indicates that earnings adjustment has consequences unusual return, increase unusual return and thus increase shares price causes incentives for earnings management for managers and managers are forced to reactions to grow stock that have reported disappointing earnings and increase earnings management for more earnings positive adjustment so they may choose procedures for financial reporting in according to something and management earnings per share to achieve to stability of positive adjustment for earnings per share (Meyers & others, 2006).

### 2. Literature Review

In recent years a lot of studies has been done on earnings management but so far any study hasn't been done about the amount of earnings per share adjustment and earnings management and it is essential to note that process of earnings per share adjustment is different with other countries and in Iran codified information of investors isn't available and all forecasts are made by the company's management. Recent research suggests the importance and information content of announcement estimated earning and shows that investors use from it as evaluation criterion in their decision and delayed reaction of investors to earnings announcements represents poor

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performance of the stock market. According to a study done by Baik and Guohua (2006) as "The use of management forecasts to dampen analyst's expectations", they concluded that management adjusts analysts expected earnings per share with pessimistic forecasts and characteristics of companies are effective on the management's pessimistic forecast. He can make analysts the lower earnings expectations successfully. That in all levels is acceptable and achievable, in addition they anticipated that companies with unstable ownership and existence losses on long term publish pessimistic forecast of earnings. The study of Burgstahler and Dichev (1997) suggests that there are incentives to avoid earnings decreases and less. He find evidence that two components of earnings, cash flow from operations and changes in working capital, are used to achieve the manipulation of earnings. The study done by Richardson and others (2002) as "Predicting earnings management Earnings Management: The Case of Earnings Restatements", Showed that firms restating earnings have high market expectations for future earnings growth and have higher levels of outstanding debt, and a primary motivation for the earnings manipulations is the desire to attract external financing at a lower cost, and capital market pressures are motivating companies to adopt aggressive accounting policies. Also, they document that information is accruals specifically; operating and investing accruals are key indicators of the earnings manipulation that lead to the restatement. Evidence suggests that market participants can gain substantial value from a careful consideration of information in financial statements. According to the study's Ducharm and colleagues (2004) as "Earnings Management and Earnings Surprises: Stock Price Reactions to Earnings Components" tested stock price reactions against earnings announcement and use of analysts' forecasts of earnings and loss and divided adjustment earnings to 3 components: 1- changes resulting from the expected cash flow 2- changes resulting from (non-discretionary items) normal accruals items 3- changes resulting from (discretionary accruals items) abnormal accruals items. They realized that abnormal return earning has position relationship with all 3 except earnings adjustment same time and effect abnormal return on stock price is both directions and concurrent with changes of these 3 components and changes final evaluate of the expected normal accruals items is greater than changes final evaluate un normal accruals items. Also, there is positive relationship between changes in earnings components with future cash flow on the other hand mentioned study shows when abnormal accruals items or increases total of adjustment, lower stock price reacts than this adjustment and also, inverse theorem is true. The study done by Subramanyam (1996) as "The Pricing of Discretionary Accruals", achieved this result that abnormal accruals items has a positive and significant will profitability and this positive relationship demonstrate ability of abnormal accruals items in transferring information about future profitability of the companies. Meyers and colleague (2006) offered evidence of positive adjustment in earnings per share in the research as "earnings momentum and earnings management" and realized companies that report of earnings per share seasonally, expected more changes in it and enjoy of more abnormal earnings and use of earnings management tools for the continuing increase in earnings per share. According to the study of Choie and others

(2011) as "Do Management EPS Forecasts Allow Returns to Reflect Future Earnings?" implications for the continuation of managements quarterly earnings guidance", showed disclose more information future earnings reflect better on return and management's forecasts of earnings per share and their characteristics is effective on correlation coefficient future earning correlation coefficient future earnings is higher of company's management forecasts and when forecasts are consistently and accurately help investors to better predict future earnings. Also, they founded that short term their latest performance is confirmed, they attempt to make earnings per share's positive adjustment. According to study Matsomo to (2002) as "Management Incentives to Avoid Negative Earnings Surprises " assumed that managers done actions for avoid earnings negative adjustment and assumed that there is a relationship between characteristics of company and incentives avoid negative earnings adjustment. He founded that companies with unstable institutional ownership most rely to implicit claims of stockholders forecasts and the quarter are effective on relationship between annual abnormal return and earnings increasing and short term forecasts and the quarter allow that will expect better earnings. Das and Zhang (2003) showed in the study as "Rounding-up in Reported EPS, Behavioral Thresholds, and earnings management ", that companies can attempt to earnings manipulation a way that they always can have a positive adjustment and when managers expect that their positive adjustments are matched with forecasts of analysts and because value and more relevance of earning usually in earnings announcement, announced earning matches with expectation or and exceed of that. Also companies manage earning upward for to avoiding misleading expectations of statement's earnings per share or downward guidance analyst's forecast also evidence showed 2 mechanisms that play an important real in avoiding earnings per share's negative adjustment and matching analyst's expectations with conditions are abnormal accruals items and analyst's forecasts less than expected.

## 2.1. Earnings Management

Numerous definitions is done of earnings management but there isn't a comprehensive definition and agreement of it. Batler et al (2004) believe that manipulation earnings arises from different perceptions earning between accountants and analysts that financial analysts know differ actual earning with reported earning and hold the belief, one of reason that causes this difference, is possibility of manipulation earning by manager and since preparation of the financial statement is the responsibility of management may reasons attempt to manage earnings. They earnings management know as an umbrella for activities that effect on reported earning or analyze it that begins from accounting decisions that determine earning to the extent with accounting behavior and size of obligations at the time of preparing financial report and its result well be in activities that effect an interpretation of periodic reports. Healy and Wahlen (1996) believe that earnings management occurs when that manager uses personal judgments for financial reporting and this work does with purpose of misleading the real stockholders or with purpose impact result of contracts that depend on reported accounting numbers.

Mulford and Comiskey (1994) know earnings management active manipulation in accounting results with purpose changes in the performance of enterprise (Babalyan, 2004). Fern and Brown and Dickey (1994) defined earnings management as earnings manipulation by management in order to achieve the some of the prejudices related to expected earning as analysts predicts previous estimates of management or reducing distribution of earning of shares (Beaver & Mc Nichols, 1998). Although the earlier mentioned definitions are accepted widely but operating off these definitions is a difficult work with accounting numbers because main issue is intent and motivation of management it isn't observable and in many cases due to lack of objective evidence based on intention of management, it is difficult that distinguish between earnings management and fakery (Noravesh, 2005).

## 2.2. Positive and Negative Adjustment of Earnings Per share

Positive and negative adjustment of earnings per share Experience Company in forecast earnings in the past can be reflects company's policy in indication anticipated future earnings. Company announce earning forecast in the first the financial year, and adjust it in length of period. More important of amount forecast earnings its process of deviation is important. Usually company act to announcing percentage of forecasted and covered earnings per share, after some time of year and doing forecast activities based on they how far have been able that act according to anticipated. Sometimes, this percentage is close to the predicted how far that company likely can achieve to more earning than have anticipated in the first the financial year. In this case, company acts to more and newer than previous forecasts that likely call it positive adjustment of earnings per share. After a while enterprises realized that to reason can't achieve to forecast earning and new forecast earnings to announce lower or other words adjust it negatively. Therefore, usually the first estimate of corporate of earnings per share can't be good a basis for investment decisions and the latest estimate more takes consideration. Since these forecasts and adjustment have many psychological effects in market and stock price. Usually most companies try that the first period forecast is somehow that hadn't to negative adjustment and in future and if possible have positive adjustment.

Reasons of positive adjustment of earnings per share can include the following:

- 1 - Reduction in finished price of sold good and increasing selling price
- 2 - Reduction of financial cost due to reduction of receivables and less facilities
- 3 - Improving global conditions and improving exports.

Reasons of negative adjustment of earnings per share can be caused by the following:

- 1 - Identifying and counting not assimilated cost production cost, foreign currency translation losses and storage of non-commercial receivable,
- 2 - Increasing financial cost due to get alone more them the amount predicted and reduction amount of production and sale,
- 3 - Reduction amount of production and sell and increasing in

global rate of raw materials and productions,

4 - Lack of liquidity and lack of cooperation from banks about payment facilities and services for purchase raw material products.

5 - Increasing public mandatory costs due to increasing cost of wage and salary and commission costs of sale.

6 - Excess demand in relation to a particular item,

7 - Down turn and down turn in the industry.

Beside the above, changing in government policies regarding customs tariffs, major changes in the exchange rate also can be to reasons for earnings per share adjustment.

Hypothesis:

1 - There is significant relationship between amount adjustment of latest forecast earnings per share than its first forecast and earnings management.

2 - There is significant relationship between latest adjustment of earnings per share and earnings management.

## 3. Research Methodology

### 3.1. Variables

3.1.1 Independent Variables: How to calculate the independent variables are as follow:

1 - A mount adjustment of latest forecast of earnings per share than the its first forecast:

(The latest forecast of earnings per share – the first forecast of earnings per share) / (The first forecast of earnings per share) × 100

2 - Earnings per share 's Latest adjustment:

(Latest forecast of earnings per share – forecast earnings per share in last quarter) / (forecast earnings per share in last quarter) × 100

### 3.1.2. Dependent Variable

Dependent variable in is discretionary accruals that has been considered as a suitable replacement for earnings management. For separating optional part of total accruals items is used of the different models Jones models (1991), The Modified Jones Model (1995) and Kasznik (1999), that in study Kasznik's model (1999) is considered.

Kasznik Model (1999)

$$TA_{it} = \alpha_0 + \alpha_1[\Delta REV_{it} - \Delta REC_{it}] + \alpha_2 PPE_{it} + \alpha_3 \Delta CFO_{it} + \varepsilon_{it} \quad (1)$$

In this model:

$TA_{it}$  = Total Accruals items in year t

$\Delta CFO_{it}$  = Change in Cash Flow from Operations year t – 1 to year t

$PPE_{it}$  = Gross Property, Plant and Equipment

$\Delta REV_{it}$  = Change in Revenue from t – 1 to year t

$\Delta REC_{it}$  = Change in Receivables from t – 1 to year t

In order to adaptation of result of research with Iran's environment, variable changes inventory added to Kasznik model since inventories in Iranian companies makes up a significant part of company's assets and due to high inflation in the Iranian economy is considered as useful tool for earnings management, the assumption

is that in position increasing of the general level of prices reducing in inventories than previous year will cause increasing in income optionally therefore changes in inventory are added to changes in income to Kasznik model, with this work changes in inventory that assumed, it is optionally and controlled by management, is separate from the non discretionary accrual.(Baharmoqadam and Koohi, 2010). Initially total accruals are measured as follows:

$$1) TA_{it} = IBEI_{it} - CFO_{it} \quad Eq. \quad (2)$$

TA=Total Accruals

IBEI= Income Before Extraordinary Items

CFO= Cash Flow from Operations

Then relationship between total accruals with variables of sale, property and equipment and receivables accounts, inventory and cash flow generated by operations by below regression equation is estimated for every year in company and for each group of industries:

$$2) TA_{it} = b_{1it} + b_{2it}(\Delta REV_{it}) - \Delta REC_{it} + b_{3it}(PPE_{it}) + b_{4it}(\Delta CFO_{it}) + \varepsilon_{it} \quad Eq. \quad (3)$$

After estimating parameters of model No 3 non-discretionary accruals are calculated as follows:

$$3) NDA_{it} = b_{1it} \left( \frac{1}{A_{i,t-1}} \right) + b_{2it} \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) + b_{3it} \left( \frac{PPE_{it}}{A_{i,t-1}} \right) + b_{4it} \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it} \quad Eq. \quad (4)$$

In the last stage, discretionary accruals are calculated as follows:

$$4) DA_{it} = TA_{it} - NDA_{it} \quad Eq. \quad (5)$$

### 3.1.3. Community and sample

Statistics society is listed companies in stock exchange that are following qualified:

- 1 - Before 2008 accepted in Exchange and the end of its financial year is ending to march.
- 2 - They are part of companies that during the financial year have attempted to an adjustment of earnings per share.
- 3 - They aren't part of trading and financial intermediation companies, because these companies have different structure from other manufacturing companies and manipulation earning less do in them through accruals.
- 4 - Companies during the period haven't changed the financial year.

Thus, the present study societies include 200 companies that from the society 133 companies were chosen as an example random. For determining number of sample Cochran formula and number of selective sample is used consistent with result of calculations.

## 4. Results

### 4.1. Description Characteristic of Regression Model for Each Industry

Fitting regression model and regression table the estimated accruals for each Industry will be as Table 1, 2 and 3.

<Table 1>Model summary

Kind	Model	R	R Square	Adjusted R Square
Automotive industry	1	0.630	0.397	0.332
Other Industries	1	0.919	0.845	0.825
Mining Industry	1	0.878	0.771	0.772
Non-Metalic Mineralization Industry	1	0.863	0.746	0.718
Rubber and Plastic Industry	1	0.864	0.747	0.684
Food Products Industry	1	0.746	0.557	0.507
Pharma Industry	1	0.535	0.287	0.204
Chemical Product Industry	1	0.886	0.784	0.730
Basic Metals Industry	1	0.962	0.926	0.917
Machines and Equipment Electric	1	0.885	0.884	0.743

According to what was said non-discretionary accruals are expressed as follow in various industries:

Automotive and part Industry:

$$NDA_{it} = 0.04 \left( \frac{1}{A_{i,t-1}} \right) + 0.065 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) + 0.0003 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.66 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it} \quad Eq. \quad (6)$$

Food products Industry:

$$NDA_{it} = -0.002 \left( \frac{1}{A_{i,t-1}} \right) - 0.056 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) + 0.009 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.30 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it} \quad Eq. \quad (7)$$

<Table 2> Results of test of ANOVA

Kind	Model	Sum of Squares	Df	Mean Square	F-Value	Sig
Automotive Industry	Regression	7.460	3	2.487	6.142	.002
	Residual	11.336	28	0.405		
	Total	18.796	31			
Other Industries	Regression	13.827	3	4.609	43.574	.000
	Residual	2.539	24	0.106		
	Total	16.366	27			
Mining Industry	Regression	0.192	3	0.064	15.736	.000
	Residual	0.057	14	0.004		
	Total	0.249	17			
Non-Metalic Mineralization Industry	Regression	0.969	3	0.323	27.357	.000
	Residual	0.330	28	0.012		
	Total	1.299	31			
Rubber and Plastic Industry	Regression	0.147	3	0.049	11.825	.001
	Residual	0.050	12	0.004		
	Total	0.197	15			
Food Products Industry	Regression	0.099	3	0.33	10.898	.000
	Residual	0.079	26	0.003		
	Total	0.178	29			

Pharma Industry	1	Regression	0.050	3	0.017	3.482	0.030
		Residual	0.124	26			
		Total	0.174	29			
Chemical Product Industry	1	Regression	2.637	3	0.879	14.530	.000
		Residual	0.726	12			
		Total	3.362	15			
Basic Metals Industry	1	Regression	42.336	3	14.112	107.689	.000
		Residual	3.407	26			
		Total	45.743	29			
Machines and Equipment Electric	1	Regression	1.198	3	0.399	19.350	.000
		Residual	0.330	16			
		Total	1.528	19			

Machines and Equipment Electric	1	PPEt					
		(Constant)			-0.543	0.594	
		CFOt			-0.520	-3.590	0.002
		REV-REC+IN			-0.364	-2.618	0.019
		Vt			0.200	1.534	0.145

<Table 3> Coefficients

Kind of Industry	Model	Standardized Coefficients	T	Sig
		Beta		
Automotive Industry	(Constant)		0.371	0.713
	CFOt		-4.136	0.000
	REV-REC+IN	-0.874	3.771	0.001
	Vt	0.797	0.065	0.948
	PPEt	0.010		
Other Industries	(Constant)		1.725	0.097
	CFOt	-4.818	-10.639	0.000
	REV-REC+IN	0.399	4.877	0.000
	Vt		-10.244	0.000
	PPEt	-4.632		
Mining Industry	(Constant)		-1.558	0.142
	CFOt		-5.413	0.000
	REV-REC+IN	-3.315	-4.804	0.000
	Vt	-2.133	6.628	0.000
	PPEt	1.979		
Non-Metallic Mineralization Industry	(Constant)		-0.478	0.637
	CFOt		-4.833	0.000
	REV-REC+IN	-0.810	-1.198	0.241
	Vt	-0.157	-1.370	0.182
	PPEt	-0.195		
Rubber and Plastic Industry	(Constant)		-0.654	0.526
	CFOt		-2.376	0.035
	REV-REC+IN	-0.496	2.507	0.028
	Vt	0.553	3.656	0.003
	PPEt	0.611		
Food Products Industry	(Constant)		-0.126	0.900
	CFOt		-2.199	0.037
	REV-REC+IN	-0.406	-2.122	0.044
	Vt	-0.394	0.209	0.836
	PPEt	0.028		
Pharma Industry	(Constant)		0.105	0.918
	CFOt		-2.201	0.037
	REV-REC+IN	-0.367	-0.527	0.603
	Vt	-0.088	2.177	0.039
	PPEt	0.362		
Chemical Product Industry	(Constant)		-0.305	0.766
	CFOt		-0.590	0.566
	REV-REC+IN	-0.130	4.041	0.002
	Vt	0.830	-0.284	0.781
	PPEt	-0.074		
Basic Metals Industry	(Constant)		1.054	0.301
	CFOt		-2.527	0.018
	REV-REC+IN	-0.368	-2.991	0.006
	Vt	-0.237	-4.236	0.000
	PPEt	-0.717		

Basic metals Industry:

$$NDA_{it} = 0.075 \left( \frac{1}{A_{i,t-1}} \right) - 0.037 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) - 0.133 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.365 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (8)

Pharmacy Industry:

$$NDA_{it} = 0.002 \left( \frac{1}{A_{i,t-1}} \right) - 0.014 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) + 0.260 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.379 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (9)

Machines and Equipment Electric Industries:

$$NDA_{it} = -0.024 \left( \frac{1}{A_{i,t-1}} \right) - 0.094 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) + 0.290 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 1.168 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (10)

Non-Metallic Mineralization Industry:

$$NDA_{it} = -0.013 \left( \frac{1}{A_{i,t-1}} \right) - 0.069 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) - 0.025 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 1.010 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (11)

Chemical Product Industry:

$$NDA_{it} = -0.22 \left( \frac{1}{A_{i,t-1}} \right) + 0.156 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) - 0.015 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.103 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (12)

Mining Industry:

$$NDA_{it} = -0.27 \left( \frac{1}{A_{i,t-1}} \right) - 0.081 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) + 0.208 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.437 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (13)

Other Industries (is take in paper industry, package industry, carton industry and weave industry):

$$NDA_{it} = 0.113 \left( \frac{1}{A_{i,t-1}} \right) - 0.009 \left( \frac{\Delta REV_{it} - \Delta REC_{it} + \Delta INV_{it}}{A_{i,t-1}} \right) - 0.216 \left( \frac{PPE_{it}}{A_{i,t-1}} \right) - 0.531 \left( \frac{\Delta CFO_{it}}{A_{i,t-1}} \right) + \varepsilon_{it}$$

Eq. (14)

Due to the amount of non- discretionary accruals, for discretionary accruals that are residuals of the model have:

$$DA_{it} = TA_{it} - NDA_{it} \quad \text{Eq. (15)}$$

#### 4.2. Describe the process of hypothesis testing

The first hypothesis, there is relationship between amount of adjustment latest forecast of earnings per share than its first forecast and earnings management that, for test this hypothesis needs to fitting regression equation between amount of adjustment latest forecast of earnings per share than its first forecast and discretionary accruals. Therefore model has been tested as follow:

$$DA_{it} = \theta_0 + \theta EPSA_{it} + \varepsilon_{it} \quad \text{Eq. (17)}$$

That we have in this model:

$DA_{it}$  = Discretionary Accruals of the icompany in year t,

$\theta EPSA_{it}$ = amount of Earnings per Share's Adjustment latest forecast than its first forecast of the i company in year t,

$\epsilon_{it}$ = The remaining of regression the i company in year t.

By as significant the model with independent variable can be accepted that amount of earnings per share's adjustment latest forecast than its first forecast is effective on earnings management. For fitting this regression equation according to established regression underlying conditions that is same normality test, the lack of correlation remains and, homogeneity and constant variance we have the results of table 4:

<Table 4> Model summary Dependent variable: Standardized Residual

Model	R	R Square	Adjusted R Square	F-Value	Sig
1	0.032. Predictors: (Constant), eps1-eps0	0.001	-.003	0.227	.634
Model	Sum of Squares	Df	Mean Square		
1	Regression Residual Total	0.005 5,407 5,412	1 226 227	0.005 0.024	

Regression table amount of adjustment latest forecast of earnings per share than its first forecast and earnings management, we provided estimates of coefficients after the evaluation performance of model. Therefore final model is obtained as table 5:

<Table 5> coefficients after the evaluation performance of model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig	
	B	Std. Error	Beta			
1	(Constant) Eps1- eps0	0.413 1.654E-6	0.010.	0.32	40.142 0.476	0.000 0.634

Despite increasing earnings management makes increasing difference in expecting earning in beginning and end of the period, based on analysis of variance table, model isn't significant as to statistically and we can say that based on this model, only 0.1 percentage of the amount of discretionary accruals in companies are defined by amount of earnings per share's adjustment latest forecast than its first forecast and below model can be accepted:

$$DA_{it} = 0.413\theta_0 + 1.654EPSA_{it} + \epsilon_{it} \quad \text{Eq.} \quad (18)$$

Based on the above model and the amount likelihood ( P-Value= 0.634), and compared with significant level ( $\alpha = 0.05$ ) can be accepted with probability 95 percent that then isn't relationship between

amount of earnings per share 's adjustment latest forecast that its first forecast and earnings management.

The Second hypothesis, there is relationship between earnings per share's latest adjustment and earnings management. For test this hypothesis needs to fitting regression equation amount of earnings per share's latest adjustment share and earnings management with discretionary accruals and therefore model has been tested as follow:

$$DA_{it} = \theta_0 + \theta EPSA_{it} + \epsilon_{it} \quad \text{Eq.} \quad (19)$$

That we have in this model:

$DA_{it}$ = Discretionary Accruals of the icompany it year t,

$EPSA_{it}$ = amount of latest Earnings per Share's Adjustment of the icompany in year t,

$\epsilon_{it}$ = The remaining of regression the i company in year t

By as significant the model with independent variable can be accepted that amount of earnings per share's latest adjustment is effective on earnings management. For fitting this regression equation according to established regression underlying conditions that is same normality test, the lack of correlation remains and homogeneity test, the lack of correlation remains and homogeneity and constant variance we have:

<Table 6> Regression table amount of earnings per share's latest adjustment and discretionary items

Model	R	R Square	Adjusted R Square	F-Value	Sig
1	0.004	0.0002	-0.004	0.004	0.950
Model	Sum of Squares	Df	Mean Square		
1	Regression Residual Total	0.0001 5.902 5,902	1 230 231	0.0001 0.026	
Model	Standardized Coefficients	T	Sig		
1	(Constant) Eps1- eps0	-0.151	40.662 -2.301	0.000 0.022	

Despite increasing earnings management makes in sing amount of earnings per share's adjustment, based on analysis of variance table, model isn't significant as to statistically and we can say that based on this model, only 0.0002 percentage of the amount of discretionary accruals in companies are defined by amount of earnings per share's adjustment and below model can be accepted:

$$DA_{it} = 0.416 + 0.001EPSA_{it} + \epsilon_{it} \quad \text{Eq.} \quad (20)$$

Based on the above model and the amount likelihood (P-Value= 0.950) and compared with significant level ( $\alpha = 0.05$ ) can be accepted that is rejected in level of error 5 percent and with probability 95

percent can't be accepted that there is relationship between amount of earnings per share's latest adjustment and earnings management

## 5. Conclusion

Since the in recent years in Iran studies been done in the field amount of earnings per share's adjustment because of the importance that has last estimates of companies of actual earnings per share has less deviation than the first estimate, companies will rely on it with more confidently, last estimate is based. In the study, first, existence a relationship between amount of earnings per share's adjustment latest forecast than it's first forecast and earnings management. That this result, likely doesn't confirm result of Myers in 2006 and it represents this point that amount of earnings per share's adjustment can't have unusual return the result increasing stocks price and also, can't make earnings management incentives for managers. Unlike result of Das and Zhang's study in 2003 for more positive earnings per share's adjustment don't increase manipulation and earnings management and amount of earnings per share's positive and negative adjustment isn't incentive for earnings management of companies. In the second hypothesis, amount of earnings per share's latest adjustment and earnings management was tested and this hypothesis was rejected. The result of two hypothesis suggest that amount of earnings per share's negative and positive adjustment that is presented as seasonally isn't incentive for manipulate and earnings management by company's managers, however based on theoretical argument was expected that a relationship exist between amount of earnings per share's adjustment and earnings management, but this argument wasn't approved. The result of two hypotheses, confirms volume accruals items of companies earnings per share's adjustment isn't different with other companies.

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