

Vol 3 Issue 5 June 2013

Impact Factor : 0.2105

ISSN No : 2230-7850

Monthly Multidisciplinary
Research Journal

Indian Streams Research Journal

Executive Editor

Ashok Yakkaldevi

Editor-in-chief

H.N.Jagtap

IMPACT FACTOR : 0.2105

Welcome to ISRJ

RNI MAHMUL/2011/38595

ISSN No.2230-7850

Indian Streams Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

International Advisory Board

Flávio de São Pedro Filho Federal University of Rondonia, Brazil	Mohammad Hailat Dept. of Mathmatcal Sciences, University of South Carolina Aiken, Aiken SC 29801	Hasan Baktir English Language and Literature Department, Kayseri
Kamani Perera Regional Centre For Strategic Studies, Sri Lanka	Abdullah Sabbagh Engineering Studies, Sydney	Ghayoor Abbas Chotana Department of Chemistry, Lahore University of Management Sciences [PK]
Janaki Sinnasamy Librarian, University of Malaya [Malaysia]	Catalina Neculai University of Coventry, UK	Anna Maria Constantinovici AL. I. Cuza University, Romania
Romona Mihaila Spiru Haret University, Romania	Ecaterina Patrascu Spiru Haret University, Bucharest	Horia Patrascu Spiru Haret University, Bucharest, Romania
Delia Serbescu Spiru Haret University, Bucharest, Romania	Loredana Bosca Spiru Haret University, Romania	Ilie Pintea, Spiru Haret University, Romania
Anurag Misra DBS College, Kanpur	Fabricio Moraes de Almeida Federal University of Rondonia, Brazil	Xiaohua Yang PhD, USA
Titus Pop	George - Calin SERITAN Postdoctoral Researcher	Nawab Ali Khan College of Business Administration

Editorial Board

Pratap Vyamktrao Naikwade ASP College Devrukh,Ratnagiri,MS India	Iresh Swami Ex - VC. Solapur University, Solapur	Rajendra Shendge Director, B.C.U.D. Solapur University, Solapur
R. R. Patil Head Geology Department Solapur University, Solapur	N.S. Dhaygude Ex. Prin. Dayanand College, Solapur	R. R. Yalikal Director Managment Institute, Solapur
Rama Bhosale Prin. and Jt. Director Higher Education, Panvel	Narendra Kadu Jt. Director Higher Education, Pune	Umesh Rajderkar Head Humanities & Social Science YCMOU, Nashik
Salve R. N. Department of Sociology, Shivaji University, Kolhapur	K. M. Bhandarkar Praful Patel College of Education, Gondia	S. R. Pandya Head Education Dept. Mumbai University, Mumbai
Govind P. Shinde Bharati Vidyapeeth School of Distance Education Center, Navi Mumbai	Sonal Singh Vikram University, Ujjain	Alka Darshan Shrivastava Shaskiya Snatkottar Mahavidyalaya, Dhar
Chakane Sanjay Dnyaneshwar Arts, Science & Commerce College, Indapur, Pune	G. P. Patankar S. D. M. Degree College, Honavar, Karnataka	Rahul Shriram Sudke Devi Ahilya Vishwavidyalaya, Indore
Awadhesh Kumar Shirotriya Secretary, Play India Play (Trust),Meerut	Maj. S. Bakhtiar Choudhary Director,Hyderabad AP India.	S.KANNAN Ph.D , Annamalai University,TN
	S.Parvathi Devi Ph.D.-University of Allahabad	Satish Kumar Kalhotra
	Sonal Singh	

**Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.isrj.net**



INCOME SMOOTHING PRACTICES: AN EMPIRICAL INVESTIGATION OF LISTED FIRMS IN TEHRAN STOCK EXCHANGE (TSE)

KHADIJEH KHODABAKHSHI PARIJAN

Research Scholar in Accounting, Business Administration Department,
University of Mysore.

Abstract:

The research mainly aims to identify factors influencing income smoothing among companies listed in Tehran stock exchange from 2008 to 2012 and factors influencing income smoothing.

From one perspective, related elements of income smoothing; can be categorized as goals and motives, tools, and influencing factors. If income smoothing behaviour be observed in an economic environment, one of the questions raised is what factors can be effective in this phenomenon. This research addresses factors influencing income smoothing among Iranian listed companies in TSE. Although many factors can potentially be effective in this phenomenon, in this study the factors chosen are including: Debt to Equity ratio, Company Profitability ratio, Company Size, Financial leverage ratio.

It based on the results of univariate analysis using the Mann-Whitney Test there are differences of Company Size, Profitability, and net profit margin of companies that engage in the practice of income smoothing with no income smoothing practice. On multivariate analysis simultaneously on five independent variables, only company size variables significantly influence income smoothing..

KEYWORDS:

Income Smoothing, Profitability ratio, leverage ratio, Debt to Equity ratio.

INTRODUCTION:

Investors are more interested in buying the shares of firms whose incomes are more stable. Moreover, investors believe that firms reporting high levels of fluctuation take more risks in analogy to those reporting smooth earnings. Considering this issue, managers are inclined to level the earnings of their firms in order to visualize them alongside high levels of stability in earnings, leading to promotion within a flexible framework of the Generally Accepted Accounting Principles. Smoothing, they believe, results in a company's better performance (Hejazi, et al.).

Generally accepted accounting principles provide a variety of alternatives to account for a given set of financial occurrences. For example, there are many "acceptable" methods of depreciating an asset. Also management has the capability of timing financial transactions (such as delaying a sale) and making discretionary expenditures. Because of this flexibility, management has a limited capability to manage reported income from year to year.

FACTORS INFLUENCING INCOME SMOOTHING

There are several factors influencing income smoothing such as: market share, degree of unionization, ownership control, Firm size, bonus compensation and preliminary earnings diverge from

expectations and etc. This study evaluate some factors affecting income smoothing behavior which are:

- a) Company size
- a) Company profitability ratio
- c) Net profit margin
- d) Financial leverage ratio
- e) Debt to equity ratio

RESEARCH METHODOLOGY

Ex post facto research design will be followed in the present research to describe and analyze income smoothing practices in companies listed in TSE.

POPULATION AND SAMPLE

Population in this study is all the companies (from 2008-2012) on the Tehran Stock Exchange are practicing income smoothing. 33 Companies listed in TSE will be selected on the basis of random sampling method for the purpose of this study.

STATISTICAL METHODS

In this study several statistical methods will be used to test hypotheses and a significant level of %5 has been selected in order to accept or reject the hypothesis. These are including:

Descriptive Statistics
Univariate Tests
Multivariate logit model

DESCRIPTIVE STATISTICS ANALYSIS

Expected results of statistical tests generally can legitimize the validity and reliability of the variables used in each statistical test research hypotheses. Sample of 33 firms conducted during the 5-year observation phase to determine the status of income smoothing. So there are 165 samples can be processed to analyze income smoothing.

Descriptive statistical analysis with the aid of a computer program SPSS Statistics is presented in Table 1 below:

Table 1
Descriptive Statistics of sample companies

Variable	N	Minimum	Maximum	Mean	Standard Deviation
company size	165	27.720.995.361	17.243.721.000.000	2.045.142.035.443	3.318.829.984.619
Profitability (ROI)	165	-0,4400	70,1500	0,4916	5,4594
Net Profit Margin	165	-1,4600	132,1700	0,8412	10,2878
Financial Leverage	165	0,0500	2,8600	0,5892	0,4626
Debt to Equity	165	-6,6600	17,6600	1,3992	2,4445

Based on the descriptive statistical analysis of the above table, the number of samples used in this study was 165 samples. For the variable firm size (size) minimum value of Rs. 27,720,995,361, the maximum value of Rs. 17,243,721,000,000, the average of Rs. 2,045,142,035,443, and has a standard

deviation of Rs. 3,318,829,984,619,. For Profitability variable (ROI) minimum value of -0,4400 , the maximum value of 70,1500, the average is 0,4916, and has a standard deviation of 5,4594. For variable Net Profit Margin minimum value of -1, 4600, maximum value of 132,1700 , the average is 0,8412 , and has a standard deviation of 10,2878. Financial Leverage for variable minimum value of 0, 0500 , the maximum value of 2,8600 , the average is 0,5892, and has a standard deviation of 0,4626. Debt to Equity for the variable average is 1, 3992 , and has a standard deviation of 2,4445 , the minimum value of -6,6600, and a maximum value of 17,6600.

UNIVARIATE ANALYSIS TESTING

Normality Test Data Analysis
This study using the One Sample Kolmogorov Smirnov test was performed to test things normality of the data of each variable. Terms of normality decision testing with One Sample Kolmogorov Smirnov are as follows:

If the value of p-value (Sig Asymp.)> 0.05 then Ho is accepted; normally distributed data.
If the value of p-value (Asymp. Sig) <0.05 then Ho is rejected; normally distributed data.

Data normality test results of each variable were performed using SPSS Statistics and the results are as follows:

Table 2
Normality Test Results of Each Variable

NO	Variable	Asym. Sig. (2-tailed)	information	distribution
1	company size	0,000	P<0,05	not Normal
2	Profitability (ROI)	0,000	P<0,05	not Normal
3	Net Profit Margin	0,000	P<0,05	not Normal
4	Financial Leverage	0,000	P<0,05	not Normal
5	Debt to Equity	0,000	P<0,05	not Normal

Based on test results one sample kolmogorov Smirnov can be seen that the variable firm size (Size), profitability (ROI), net profit margin, financial leverage, and debt to equity was not normally distributed, it can be seen from the probability (p-value) or Asymp. sig (2-tailed) is smaller than $\alpha = 0.05$.

Mann-Whitney Test

Based on one sample kolmigorov smirnov test variables company size, profitability (ROI), net profit margin, financial leverage, and debt to equity was not normally distributed. Therefore , proper testing performed for these variables is the Mann-Whitney test. Results of univariate test at a significance level of 5 % (0.05) by using SPSS Statistics , the results are presented in table 3 below:

Table 3
Testing results of Mann-Whitney Test

Variable	p-value	information	Ho
Company size (Size)	0,004	P < 0,05	denied
Profitability(ROI)	0,000	P < 0,05	denied
Net Profit Margin	0,000	P < 0,05	denied
Financial Leverage	0,478	P > 0,05	accepted
Debt to Equity	0,954	P > 0,05	accepted

The above test shows that the variable company size, profitability, and Net profit Margin has a probability value (p-value) or Asymp.sig (2-tailed) smaller than $\alpha=0.05$ which means rejection of H_0 . There are differences in company size, profitability, and net profit margin between companies that perform income smoothing practices by companies that do not do practice income smoothing. And there is no difference in financial leverage variables and debt to equity ratio among companies that perform income smoothing practices by companies that do not do practice income smoothing.

ANALYSIS OF MULTIVARIATE TESTING

Multivariate analysis was used to test the significance of the effect of variable company size, profitability (ROI), Net profit margin, financial leverage and debt to equity simultaneously or individually to income smoothing practices. Multivariate analysis was done by using logistic regression analysis with the help of the computer program SPSS Statistics.

Multivariate testing was conducted simultaneously for five independent variables using binary logistic regression. Basis for decision-making in the logistic regression analysis is to use the value of Hosmer and Lemeshow Goodness-of-fit test

Hosmer and Lemeshow Test (Goodness of-fit Test)

This test aims to test the accuracy or adequacy of the data in the logistic regression model

Table 4
Hasil Pengujian Hosmer and Lemeshow (Goodness of-fit Test)
Hosmer and Lemeshow
Test

Step	Chi-square	df	Sig.
1	7.287	8	.506

Based on the table it can be seen chi-square of 7.287 and a degree of Freedom of 8. The significance level is greater than $\alpha = 0.05$ is equal to 0.506. It can be concluded that the logistic model showed the adequacy of data (fit).

Model Summary (Coefficient of Determination)

Summary in the logistic regression models with R^2 testing in linear regression equation. R^2 shows the estimated variation of the independent variables to explain the dependent variable.

Table 5
Hasil Pengujian Koefisien Determinasi
Model summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	198.489a	.161	.215

a. Estimation terminated at iteration number 9 because parameter estimates changed by less than,001.

From the test results above is known that the model test summary (coefficient of determination) produce a -2 log likelihood of 198.489 and the views of the coefficient of determination Nagelkerke R^2 is 0.215. That is, the combination of independent variables that measure company size, profitability, Net Profit Margin, Financial Leverage and Debt to Equity is able to explain the variation of the dependent variable income smoothing by 21.5% while the remaining 78.5% is explained by the variable that are not included in this model.

CONCLUSION

From the results of the testing that has been conducted on the company's publicly traded companies listed on the Tehran Stock Exchange years 2008-2012 proved that there has been a practice of income smoothing that can be taken conclusions as follows:

1. Based on the results of univariate tests can be concluded that there are differences in the variables firm size, profitability, and net profit margins between companies that perform income smoothing practices by companies that do not do practice income smoothing. And there is no difference in financial leverage variables and debt to equity ratio among companies that perform income smoothing practices by companies that do not do practice income smoothing.
2. Based on the results of multivariate tests simultaneously obtained results that firm size variables affect income smoothing practices. Multivariate testing simultaneously also showed that the profitability variable has no effect on income smoothing practices. In addition to the variable profitability, net profit margin variable also had no effect on income smoothing practices. In these testing financial leverage variables also have no effect on income smoothing practices. Similarly, the debt to equity ratio variable that does not have an influence on the practice of income smoothing.

BIBLIOGRAPHY:

- Ahmed, A., G.J. Lobo and J. Zhou. (2008), "Job security and income smoothing: An empirical test of the Fundenberg and Tirole (1995) model", Available at SSRN.
- Anjini Kochar, (1998), "Smoothing Consumption By Smoothing Income: Hours-Of-Work Responses To Idiosyncratic Agricultural Shocks In Rural India", The Review of Economics and Statistics
- Arya, Anil; Glover, Jonathan C. and Sunder, Shyam (2003), "Are unmanaged earnings always better for shareholders?", Accounting Horizons, supplement
- Badri, Ahmad (1999), "Identification of factors affecting income smoothing", Doctoral Thesis, University of Tehran, Tehran.
- Bitner, L.N. and Dolan, RC. (1996), "Assessing the relationship between income smoothing and the value of the firm", Quarterly Journal of Business and Economics, 35 (1).
- Beidleman, C.R. (1973), "Income smoothing: The role of management." The Accounting Review 48(4).
- Chen, J.Z., L.L. Rees and S. Shivaramakrishnan. (2008), "on the use of accounting vs. real earnings management to meet earnings expectations: A market analysis". (September). Available at SSRN: <http://ssrn.com/abstract=1070122>.
- Copeland, R.M., (1968), "Income Smoothing", Empirical research in Accounting: selected studies.
- Copeland, R.M. and Wojdak, R.J. (1969), "Income manipulation and the purchase pooling choice", Journal Of Accounting Research, Autumn.
- Eckel, N, (1981), "the income smoothing hypothesis revisited", Abacus, 17 (1).
- Hejazi, R., Ansari, Z., Sarikhani, M., & Ebrahimi, F. (2012). The Impact of Earnings Quality and Income Smoothing on the Performance of Companies Listed in Tehran Stock Exchange. Available at SSRN.
- Krejcie & Morgan, (1970), "Determining Sample Size for Research Activities" Educational and Psychological Measurement, 30, 607-610.
- Imhoff Jr., E. (1977), "Income smoothing-A case for doubt", Accounting Journal, spring, 85-100.
- Kusuma, I.W. (2005), "Do income smoothing practices explain the lower earnings-price ratio of Japanese firms compared to those of the U.S. firms?", Gadjah Mada International Journal of Business, 7(1), 69-94.
- Noravesh, I. and Sepasi, S (2005), "Study of the relation between cultural values and income smoothing in Tehran Stock Exchange", Iranian Accounting and Auditing Review, 12 (40), 81-96.
- Pourheydari, O. and Aflatooni, A (2006), "The investigation of incentives of income smoothing in the Tehran Stock Exchange", Iranian Accounting and Auditing Review, 13 (44), 55-70.
- Stefanie Sieber, (2009), "Cyclone damage & agriculture in India-Income Smoothing, Risk Diversi. Cation and Cyclone Damage in India".
- Sujata Kapoor, (2009), "Impact Of Dividend Policy On Shareholders' Value: A Study Of Indian Firms", Doctoral Thesis, Jaypee Institute of Information Technology, Noida.

1



KHADIJEH KHODABAKHSHI PARIJAN

Research Scholar in Accounting, Business Administration Department, University of Mysore.

Publish Research Article International Level Multidisciplinary Research Journal For All Subjects

Dear Sir/Mam,

We invite unpublished research paper.Summary of Research Project,Theses,Books and Books Review of publication,you will be pleased to know that our journals are

Associated and Indexed,India

- ★ International Scientific Journal Consortium Scientific
- ★ OPEN J-GATE

Associated and Indexed,USA

- Google Scholar
- EBSCO
- DOAJ
- Index Copernicus
- Publication Index
- Academic Journal Database
- Contemporary Research Index
- Academic Paper Databse
- Digital Journals Database
- Current Index to Scholarly Journals
- Elite Scientific Journal Archive
- Directory Of Academic Resources
- Scholar Journal Index
- Recent Science Index
- Scientific Resources Database

Indian Streams Research Journal
258/34 Raviwar Peth Solapur-413005,Maharashtra
Contact-9595359435
E-Mail-ayisrj@yahoo.in/ayisrj2011@gmail.com
Website : www.isrj.net