

The Effect of Accounting Quality on the Size Change of The Stock Liquidity

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Abstract

The outcomes of poor accounting quality information include the reduction of quality of information environment of company, the increase of information asymmetry, incomplete information and reduced liquidity. The financial reporting quality with the effect on decisions of accounting information users leading to the market response are the issues receiving much attention by researches on financial management and accounting. This study aims to study the effect of accounting quality on the change of size of stock liquidity of companies. The study population is all companies listed on Tehran Stock Exchange (TSE). The study period is 2009-2013. The study is carried out on 122 companies as 61 companies with good accounting quality and 61 poor accounting quality. The results of hypothesis study show that stock liquidity is different in companies with good accounting quality compared to the companies with poor accounting quality. The results show that decision making structure of capital market is potentially affected by financial reporting environment of the companies and the behavior of financial reporting of managers is a factor to change their stock liquidity. These results can be useful for the capital market policy makers and accounting standard board to formulate the rules to enhance the role of accounting quality and for investment to present a basis to reduce liquidity risk of stock.

Keywords- *Accounting quality; Liquidity; Stock*

Introduction

The main role of financial reporting is the effective transmission of information to external organization people by a timely and valid method and this is fulfilled by reporting transparency and qualified disclosure of financial information. The review of literature shows that the transparency and quality of disclosure of financial data of economic units have important effect on the strategies of investors. The current commercial and professional world is changed considerably. One of the reasons is globalization of economy. With the increasing changes, quality is the pre-requirement of global economy. The business units and investors are encountered with many investment opportunities and require logical decision making to optimized investment (Saghafiv et al. 2001).Optimal decision

Making for investment in business units or correct allocation of rare resources requires high quality financial data. One of the effective factors on optimal investment is the quality of accounting data as one of the most important information sources for investors (Yang & Jiang, 2008).The investors attempt to invest in some items of asset with the highest return, lowest risk and highest liquidity (Abzari et al. 2005) In each financial market, based on the depth of market, there are various tools for investment. Based on the return and risk of assets, the investors invest. One of the effective factors on assets risk is their liquidity capability. The role of liquidity factor is of great importance in assets valuation as the investors consider that if they want to sell the assets, is there any suitable market form them? (Yahyazadefar, 2008).

Review of Literature

A review of foreign literature

Biddle et al. (2008) evaluated the effect of accounting information on the increase of quality of investment decision of firms. In other words, they attempted to evaluate the mechanism of the effect of accounting information on decision of managers. In this study, the researchers evaluated the relationship between accounting information quality, overinvestment and underinvestment. The results of study show that high accounting information quality can reduce overinvestment and underinvestment in the firms. Sadka and Lou (2011) evaluated the relationship between liquidity risk and accounting information. Generally, the results of regression showed that the high information quality firms protected the investors in critical periods.

A. Local studies

Hassan Balali and Kobra Norshahi (2013) in a study "Accounting information quality and capital expenditure of firms" evaluated the relationship between accounting quality and efficiency of capital expenditures of firms. The results of hypothesis show that high information quality increase capital expenditures. Kazemi et al.(2012), in a study "Relationship between transparency and liquidity uncertainty of stock in TSE" found that the audit quality variable had inverse and significant relationship with four criteria of liquidity uncertainty. Ahmad Yaghubnejad and Ali Zabihi (2011), evaluated the relationship between disclosure

quality and stock liquidity of companies listed on TSE. The evidences have shown that improved quality of disclosure of company can reduce information asymmetry and by reduction of information asymmetry, stock liquidity is increased. Mehrani and Hesarzade (2009), in a study “Accounting quality and cash flow holding level” found that the cash flow holding level was lower in companies with high accounting quality compared to those with low accounting quality.

Research Methodology

This study explores the effect of accounting quality on the change of stock liquidity size. The study period is 5 years during 2009 to 2013 based on the financial reports issued in TSE. The study population of present study is all the companies listed on TSE. The sampling method is systematic elimination. The total study sample is 122 companies. The present study is applied in terms of purpose. Also, it is descriptive-analytic in terms of method and nature. In the present study, the statistical method is used for data analysis and multi-variate regression method is using pooled data. Also, E-views software is used for analysis. The data scale is relative scale. The study methodology is inductive in which theoretical basics and review of literature are collected by library,

paper and internet and to support or reject the study hypotheses, suitable statistical methods are used. Also, inductive method is used to generalize the results. In this study, the statistical data are analyzed after the extraction from financial statements of companies and Rahavard Novin software. For data analysis, descriptive statistics including mean, mode, median, standard deviation, skewness, kurtosis and inferential statistics including normality test of Jarque- Bera and U-Mann Whitney are used.

The Study Hypothesis and Model Explication

A. Study hypothesis

The stock liquidity of companies with good accounting quality is different in comparison with the stock liquidity of companies with poor accounting quality.

- 1) Hypothesis test model

$$AQ = \beta_0 + \beta_1 \text{ SPREAD}$$

AQ: Information quality

SPREAD: Liquidity

B. The results of model estimation

The descriptive statistics of study with poor accounting quality is shown in Table 1.

Table 1: Descriptive statistics of study variables with poor accounting quality

Kurtosis	Skewness	SD	Min	Max	Median	Mean	Explanation
2.021	0.103	0.0098	0.0012	0.0418	0.0182	010.8	Stock liquidity

As shown in Table 1, this variable has the mean 0.018 and standard deviation 0.0098 and its maximum value is 0.0418 and its minimum value is 0.0012. The low value of standard deviation to the mean indicates the low dispersion of the data of this variable.

Figure 1: The histogram of stock liquidity variable

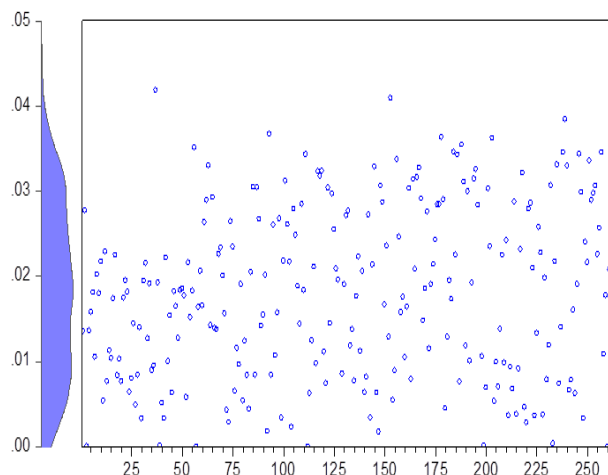


Figure 1 illustrates the histogram of stock liquidity of data distribution well. As shown in the histogram, the data distribution is defined well. In this chart, the data are mostly around the mean and this variable has low skewness.

Descriptive statistics of study variable with good accounting quality is shown in Table 2. Table 2:

Descriptive statistics of study variable with good accounting quality

Kurtosis	Skewness	SD	Min	Max	Median	Mean	Explanation
2.43	0.408	0.0087	0.0001	0.0382	0.0125	0.0131	Stock liquidity

The results of Table 2 show that this variable has the mean 0.013 and standard deviation 0.0087 and its maximum is 0.038 and minimum 0.0001. The low value of standard deviation to the mean indicates the low dispersion of the data of this variable.

Figure 2: The histogram of stock liquidity variable

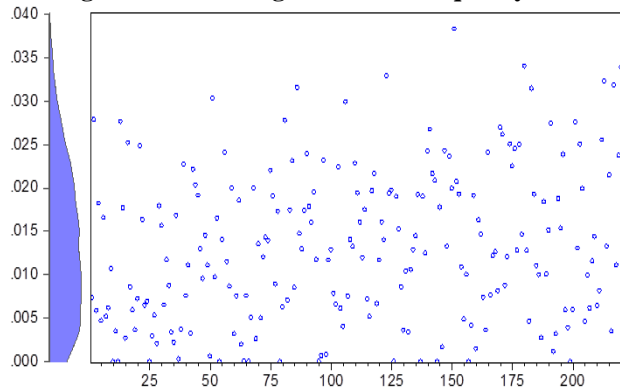


Figure 2 shows the histogram of stock liquidity with good data distribution. As shown in the histogram, the data distribution is well defined. In this chart, the data of higher than mean have higher dispersion, the right skewness.

C. Hypothesis test

Hypothesis: The stock liquidity of the companies with good accounting quality is different in comparison with the stock liquidity of companies with poor accounting quality.

- H_0 : The stock liquidity of companies with good accounting quality in comparison with the stock liquidity of companies with poor accounting quality is not different.
- H_1 : The stock liquidity of companies with good accounting quality in comparison with the stock liquidity of companies with poor accounting quality is different.

As shown in the Table 3, the mean rank of stock liquidity for companies with good accounting quality is 208.36 and in companies with poor accounting quality is 278.93. This difference is significant at the level 1% (0.01). Thus, by confidence interval, 99%, in companies with poor accounting quality, stock liquidity is higher than that of companies with good accounting quality. Thus, H_0 is rejected and H_1 is supported. Thus, we can say stock liquidity of companies with good accounting quality is different in comparison with the stock liquidity of companies with poor accounting quality.

Table 3: U-Mann Whitney test of hypothesis

	N	Rank mean	Sum of rank
Stock liquidity in companies with good accounting quality	305	208.36	50840
Stock liquidity in companies with poor accounting quality	305	278.93	67501
Sum	610		
U-Mann Whitney			20950
Z value			-5.53
Significance level			0.01

Discussion and Conclusion

To test the hypothesis “ The stock liquidity of companies with good accounting quality in comparison to the liquidity of companies with poor accounting quality is different” , U-Mann Whitney

test is used (this test is one of the non-parametric tests equal to two-independent t-test). In this hypothesis, the mean of rank of stock liquidity variable in the companies with good accounting quality is 208.36 and this value is 278.93 in companies with poor

accounting quality. It is observed that the liquidity of stock in companies with poor accounting quality is 70.57 more than that of companies with good accounting quality companies and this difference is significant at the level 1%. Thus, we can say that stock liquidity in companies with poor accounting quality is higher. Thus, this hypothesis is supported and stock liquidity of companies with good accounting quality is different in comparison to the liquidity of companies with poor accounting quality. These results are consistent with the study of Sadka and Lou (2011) regarding the relationship between liquidity risk and accounting information. The results of analysis show that the companies with high information quality protect investors under distress conditions.

Conclusion

The financial reporting quality with the effect on decisions of accounting information users leading to the market response are the issues receiving much attention by researchers on financial management and accounting. One of the important principles considered by standard formulators, financial report providers and users is information content of the reported values. This study evaluates the effect of accounting quality on the size of stock liquidity in 122 companies listed on TSE during 5 years from 2009 to 2013. Based on the hypothesis analysis results, accounting quality is an effective factor on financial variables of companies and stock liquidity is different in companies with good accounting quality and companies with poor accounting quality. Generally, the results of our study and other studies show that (considering the quality of accounting information to perceive information asymmetry can be considered as a good criterion in decision making and accounting information providers can be encouraged to present high quality information to meet the demands of society and the users of accounting information can be enticed to consider the significance of accounting information).

Recommendations of Hypothesis

In this hypothesis, stock liquidity in companies with good accounting quality is higher than that of companies with poor accounting quality. Thus, we can say if the investors search for liquidity, investment in these companies is better. The results of this study increase the awareness of investors and other high quality accounting information users and it is proposed to them to avoid wastage of rare economic resources by the data. Also, they should be sure of the information quality in investment selection.

Recommendations for Further Studies

By conducting each researcher, the necessity of performing other studies is felt. Based on the review

of literature, the following topics are proposed to other researchers:

It is proposed that the future researcher compares the trade volume, number of buyers in companies with good and poor accounting quality.

It is proposed that the future researcher compares the systematic risk of companies with good and poor accounting quality.

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