

The Effect of Accounting Information Quality on Liquidity Risk of Stock Listed Companies in Tehran Stock Exchange

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ABSTRACT

In this research was used of the correlation and multi – variables regression models in order to study the accounting information quality effect on the liquidation. The research purpose is to study the role of the accounting information quality in helping to the selection of stock with desired liquidation terms .for this purpose was used of the multiple regression model to study the information quality effect from 107 companies from Tehran TSE-listed companies in 2006 to 2011.

This research is classified as the applied researches that its purpose to develop the applied knowledge in a special field. Our used research plan is Ex-Post Facto and hypotheses of the research using the statistical methods were tested.

The results of the research hypotheses test indicate this that, accounting information quality can affect the liquidation risk of accepted companies' shares in Tehran stock exchange and increase of the qualitative properties of information can be a reason in the reduction of liquidation risk of shares. Therefore, considering the qualitative information and increasing the accounting information quality can help the investors, financial analysts, stock brokers and other users in obtaining investment decisions, stock trades and other areas.

KEYWORDS: Information quality, liquidation risk, dependability, profit forecasting, sustainability of profit, Stock evaluation model.

INTRODUCTION

TSE-listed market is an official and permanent case for buying and selling the companies' shares and other stock exchanges that in February of 1968 with the purpose of equipment of private savings and assigning them in the industrial investments and manufacturing cases began its activities.

In the recent year with promoting the exchange activities, investors send their investment toward the stock exchange markets. By empowering the investors in the exchange, investment attraction and obtaining it as an official policy was considered and meeting the need to the information in the investors turned to n important challenge for the companies.

Now , the TSE-listed companies seek for the best strategies to meet the users' needs of information. In one hand , investors try to make their informed decisions regarding the securities . one of the main concepts related to the investment decision making process is the concept of the performance of the securities market and especially stock market.

In an efficient market ,the price of the securities is not separated from economic value that the investors, calculated for the securities. Economic value of securities is defined through the investors ' expectations to the yields, risk and uncertainty. If the price of the market securities has a standard deviation from the estimated economic value, in this case, investors try to take these two values compatible with together.

Therefore, when the new information enters to the Efficient market, causes some corrections to be applied in the evaluated economic value of securities and its cost in accordance with the offered information to be defined. In the other words, the cost of securities will be defined efficiently.

Stock marker efficiency, has the important concepts for investors. In fact, EHM affect the method of persons' attitude on the process of investment and investment decisions. (Charles P, Jones, 1943) then investors must be informed about the real environment of today investment until to be able to make better decisions.

One of the information resources is the financial statements and information provided by the companies. if the provided information by companies to be dependable , creditable , timely, reliable, honest and totally qualified , can be effective in investment decision making.

Investors can be informed more about the company which want to buy or keeping the shares and make decision regarding the investment in it .for example such an information is the rate of company's liquidity in reimbursement of its commitments and ability of rapid liquidation of company's properties.

Dependability ,understandability and predictability of spoken characteristic will help the investors in reducing one of the markets liquidation risks. Many researches in order to reduce the shares liquidation risk were done , that in each one of them, factorial defined effect on reducing this risk was measured that including these factors , are the benefit quality and quality of accounting information.

In this type of researches , raising the qualitative features of information is important and this increase as a criterion in order to reduce the risk and especially the risk of liquidation was introduced.

In this research , also the effect of accounting information quality via the related variables on the liquidation risk were measured , and the main issue in performing it was considered such " whether can the accounting information quality help the investors in improvement of their investment decision in field of purchase or obtaining the various companies' shares?

Research background:

Regarding the evaluation of accounting information quality and also review of the relation of financial variables with the liquidation risk ,many studies were done.Some of studies which were done are as follows:

In 2008 , Jeffrey Ng found in a research entitled as the review of information quality effect on the liquidation risk that there is a reverse relation between the information quality and liquidation risk such that the higher information quality is along with the less liquidation quality.

In 2009 ,Rodrigo S.Verdi, Gilles Hilary,GaryC.Biddle in their research entitles as how the financial reporting can be related to the investment ? they found that , there is a positive relation between the quality of financial information and investment efficiency and companies can have a efficient investment by increase of their financial reporting .

In 2007 ,Mark H.Lang , Wayne R.Landsman , Marry E.Barth in a research entitled as international standards and quality of accounting reviewed the relation between the international accounting standards and quality of accounting .

They in their study , compared the companies together before its acceptance and resulted that the companies use of the international standards have the accounting systems with more quality . of course this quality essentially is limited to the execution of standards and will be affected by the economic factors.

In 2007 , Robert Verrecchia ,Christian Leuz , Richard , Lambert in their research entitled as " Accounting information , Disclosure and the cost of the financial security" found that in CAPMmodel , the higher information quality can reduce the capital cost of a company via the risk of the market without a variability .

In 2003 ,Robert F.Stambaugh , Lubos Pastor in their research entitled as liquidation risk and Stock expected efficiency found that when the risk of liquidation reduces in the order flow causes the more output or efficiency to be created .

In 2005 , Iliia D.Dichev , ParticiaM.Dechow in their research entitled as " quality of commitment and profit items": the role of commitment calculation errors, found that the quality of commitment items reduces the rate of profit calculation error as well as found that quality of commitment items have a positive relation with profit sustainability.

In 2007 , in their research entitled as " whether the quality of commitment items are as a factor of costing risk ? with studying the costing models of investment properties in order to define the factors effective on the risk and the accepted efficiency of shares , found that the quality of commitment items are not as a factor to describe the costing risk .

In 2004 , LasseHeje Pedersen , Viral V.Acharya in a research entitled as the properties costing with the risk of liquidation , along with presenting an exclusive model to show the effect of liquidation risk on the properties costing , found that the costing of investment properties are affected by the liquidation risk.

In 2006 , AbhijitBarua in his research entitled as " usage of the qualitative properties of FASB in measuring the dividends , concluded that the quality of benefit gives some useful information for decision of investors to them and these properties and these qualitative properties are in accordance with FASP statements. He used of qualitative properties of relativeness and dependability in order to review the information quality in measuring the quality of dividends and found that these properties are effective on the dividends quality.

In 2009 , Ali Saghafi and EbrahimEbrahimi in a research entitled as " relation of compiling the accounting standards with the accounting information quality " , investigated the benefit sustainability , gain reaction

coefficient, quality of commitment items and ability if describing the evaluation methods with the accounting standards.

They found in this research that execution of the standards were along with relative improvement of additive sustainability in the model of sustainability while in other models, the standards are not able to have a significant effect.

In 2010, Ali Rahmani, Seyed Ali Hoseini and Narges Rezapour in their research entitled as "the relation of institutional ownership and stock liquidity in Iran" indicated that there is a positive relation between the institutional ownership and stock liquidity and focus of the institutional ownership causes the stock liquidity in the companies to be reduced. In their research, these relations were observed in the case of transactions criteria such as transaction size and Amihud criteria and about the information criteria such as the stock price gap between supply and demand.

In 2010, Naser Izadnia and Amir Rezayian in their research entitled as "Ownership dispersion and stock liquidity" have found that there is a significant relation between the ownership dispersion and stock liquidity in the stock exchange of Tehran.

In 2010, Mohsen Dastgir and Majid Rastgar in a research entitled as "the review of the relation between the profit quality (profit sustainability), size of the commitment items and stock efficiency with the quality of commitment items" indicated that the profit quality (profit sustainability) has a direct relation with the quality of commitment items; while that with the reduction of the commitment items quality and increase of the commitment items size, stock efficiency will be increased.

In 2010, Mohammad Sirani, Rezvan Hejzai and Malihe Keshavarz in their researches entitled as "study of the liquidity risk effect and other effective factors on the sectional efficiency in the companies accepted in Tehran stock exchange", concluded that the market risk, company size and floating stock have a significant relation with the efficiency, but the relation of book value to the stock market value and liquidity risk are not significant with the efficiency. Also, they indicated that the relation of systematic risk and liquidity risk are significant.

In 2009, Ahmad Ahmadpour and Hosna Ghahramani Saghiri in their research entitled as "the review of qualitative properties of information reliability in the evaluation of profit quality of companies", concluded that reaction coefficient and Explanatory power of the companies' portfolio is higher than the companies' portfolio with the low reliability as well as the lack of relation between the capital fee and qualitative characteristic of reliability was confirmed.

In 2010, Rezvan Hejazi, Ali Rahmani and Zahra Mozaffari in their research entitled as "the investigation of information disclosure regulations effect on the quality of revealed information of accepted companies in Tehran stock exchange", concluded that there is not observed any reduction in the percentage of profit forecasting error and its reason is the uncertainty of business environment.

RESEARCH METHOD

Since the purpose of this research is the study of accounting information quality role in helping to the selection of stock with desired terms of liquidity, therefore this research is an applied case that its purpose is the development of applied knowledge in a specific field. In other words, applied researches will be guided toward the practical application of knowledge. (Bazargan, 2004)

The methodology is Comparative – causal type. In this method, researcher investigates the possible cause of dependent variable. Because the independent and dependent variable happened in the past. Therefore, this type of non-experimental research is known as comparative causal type.

Research hypothesis

According to the performed researches and theoretical principles, the research hypothesis is described as follows:

- H1 : profit sustainability affects the liquidity risk.
- H2 : the accuracy of profit prediction of each share affects the liquidity risk.
- H3: the reported information reliability affects the liquidity risk.
- H4: Benefit evaluation model affects the liquidity risk.

Population and sample:

Statistical population of this research is composed of all companies accepted in Tehran stock Exchange. The companies under the study were selected for test of the hypotheses such that the initially all TSE-listed companies to the end of 2010 were selected and after that the sample size was limited as follows:

- 1- Companies which to the end of 2001 to be listed in the stock;

- 2- Companies which their financial period to be ended in 29 March of every year;
- 3- Companies which don't halt their activities and have not changed their financial period during 2000-2001.
- 4- The required information in this research, to be available.

According to above terms, 107 companies were selected as samples.

The period of research was about 2005-2010.

Tools and strategies of data collecting:

Since , collecting data according to the research method will be selected , therefore , the method of collecting data in this research , is the library method and the used tools for collecting data , is one of quadruplet tools in collecting data i.e, the review of documents. Most of data will be achieved from referring to the TSE-listed companies' financial statements.

To extract the data related to the stock market value was used of Tehran stock market' sites[(www.tsetmc.ir) and (www.irbourse.com)]. Financial statements data of TSE-listed companies was extracted via www.codal.ir . finally, to analyze the data was used of EXCEL and SPSS19.

Measuring the variables of research and hypotheses test model:

Information quality : qualitative features is called to the features that cause the presented information in the financial statements for users in line with the evaluation of financial state , financial performance and flexibility of a trading unit to be useful. Some of the qualitative features are related to the content of information inserted in the financial statements and some other in the method of presenting these information . we use for evaluation of the accounting information from the following variables:

$$Qu = (Pre \cdot Ri \cdot Earn \cdot Prc)$$

In which :

Qu: accounting information quality

Pre: accuracy of each share's profit prediction

Ri: reliability if information

Earn: profit sustainability

Prc: model of profit evaluation

Liquidity risk : is from non-systematic risk types and means uncertainty of rapid exchangeability of assets.

In order to measure the RL , we used of the following formula :

RL=COV(the factor of liquidity and Earn)

$$RL = E(Rs,LIQ) - \{E(Rs) \} \{E(LIQ)\}$$

Rs=log(share value in the current day) -(share value in the previous day)

LIQ: log(size of the sold share in the previous day)

(Jeffrey Ng , 2008,p.5)

Forecasting precision of profit per share:

investors , creditors and other suppliers to make their decisions about the investment , use the profit for evaluation of profitability or the evaluation of investment risk or granting the loans and credit to the exploitative unit. Profit prediction is one of the ways that investors can be helped in this case by it and can be considered for the proper information investors, decision making.

To measure the prediction precision of profit for the year t , was used of the EPS mean of a company from the year t-4 to the year t. (Jeffrey Ng , 2008,p.12)

The reported information reliability: among the proper qualitative features with an information content , is the reliability , when the financial information is not reliable , cannot be considered useful . The information are reliable that to be free of error and important biased tendencies and honestly introduces the thing that claims it or rationally we expect from it.

To measure the reported information reliability was used of the abnormal accrual working capital criterion. Defond& Park (2001) estimated the abnormal accrual working capital based on the difference existed between the real and expected accrual working capital and there is a relation between the working capital of the previous period and sale. According to this model , to calculate the abnormal accrual working capital, the following formula will be replaced:

$$AWCA_DP_t = WC_t - [(WC_{t-1}/S_{t-1}) * S_t]$$

In which :

AWCA_DP: abnormal accrual working capital in the year t (2001 model ,Defond and Park)

WC_t: abnormal accrual working capital in the year t (Current assets except than the cash and short-term investments minus the current liabilities)

S_t: sale in the year t [Abhijit Barua, 2006 , p .25]

Stability of profit:

Stability of profit evaluates the continuity and stability of profit from one period to the next period .high Stability of profit is considered as a feature of high quality accounting information. The more the profit stability is higher, the more the company's power to maintain the current earnings and it is supposed that the company's profit quality is higher .

In order to measure the Earn , we must replace the special profit before the tax (PBT)(Ebrahimi and Saghafi , 2006 ,p 8)

Evaluation model : the major entries of stock evaluation models and values of securities in the capital market , are the accounting information reflected in the financial statements and financial reports of companies. The more the accounting is able to offer the high qualified output information , the more real models are able to estimate the values of securities close to their real value. We use of market value per share , 4 months after the end of financial year t to evaluate stock.(Ebrahimi and Saghafi , 2009)

To review the quality of accounting information on the liquidity risk , we offer the following multi-variable regression model :

$$RL = \beta_0 + \beta_1 Pre + \beta_2 Ri + \beta_3 Earn + \beta_4 Prc + \epsilon_0$$

In which:

RL: risk of liquidity

$\beta_4 - \beta_0$: Model coefficients

And ϵ_0 : epsilon (our purpose from epsilon term is the ignored independent variables in the model on the dependent variable that in this research is the non-systematic risk).

In this model , the risk of liquidity is the dependent variable and accuracy of each share's profit prediction , reliability , profit sustainability and dependent variables evaluation are the independent variables.

Results from the hypotheses test:

Results of hypotheses test are as follows:

H1: the profit sustainability is effective on the risk of liquidity .

This hypothesis is offered statistically as follows:

H0: The profit sustainability is effective on the risk of liquidity .

H1 : the profit sustainability is effective on the risk of liquidity.

To evaluate the H1 , initially the profit sustainability was calculated as an independent variable in the end of each financial year , on the other hand the risk of stock' liquidity of all studied companies also evaluated as a dependent variable in the end of each financial year , then with having the values related to each one of these two variables by introduced statistics for test of hypotheses, were addressed as follows :

Table (1-4) correlation factor , determinant factor , adjusted determinant factor

R	R ²	Adjust R ²	F	df	Sig	TEST RESULT	TEST YEAR
0.019	0.036	0.027	3.931	1	0.05	EFFECTIVE	2005
-0.193	0.037	0.028	4.06	1	0.046	EFFECTIVE	2006
-0.225	0.051	0.042	5.598	1	0.02	EFFECTIVE	2007
-0.216	0.047	0.038	5.146	1	0.025	EFFECTIVE	2008
-0.191	0.037	0.027	3.991	1	0.048	EFFECTIVE	2009
-0.191	0.036	0.027	3.969	1	0.049	EFFECTIVE	2010

According to the results from table (1-4) , since the significance level (Sig) in each one of the studied years from 2006 to 2010 is less than 5 % , H0 with confidence of 95 % is going to be rejected . it means that the profit sustainability is effective on the risk of liquidity . Of course since in 2005 , the Sig is 5 % , H) with confidence of 95 % is going to be confirmed , it means that profit sustainability in 2005 is not effective on the risk of liquidity.

H2: the accuracy of each shares' profit is effective on the risk of liquidity.

This hypothesis is presented statistically as follows:

H0: the accuracy of each shares' profit is not effective on the risk of liquidity.

H1 :the accuracy of each shares' profit is effective on the risk of liquidity.

In order to test the hypothesis 2 , initially the accuracy of each shares as an independent variable in the end of each financial year was calculated , on the other hand the risk of liquidity in all studied companies' stock was measured as dependent variable in the end of each financial year , then with having the values related to each one of these two variables , we have tested the hypothesis using the introduced statistics for test of research ' hypotheses as follows :

Table (2-4) correlation factor , determinant factor and adjusted determinant factor .

R	R ²	Adjust R ²	F	df	Sig	TEST RESULT	TEST YEAR
-0.201	0.04	0.031	4.409	1	0.038	EFFECTIVE	2005
-0.262	0.069	0.06	7.728	1	0.006	EFFECTIVE	2006
^{-0.2}	0.04	0.031	4.37	1	0.039	EFFECTIVE	2007
-0.197	0.039	0.03	4.231	1	0.042	EFFECTIVE	2008
-0.211	0.045	0.035	4.892	1	0.029	EFFECTIVE	2009
-0.194	0.038	0.028	4.105	1	0.045	EFFECTIVE	2010

According to the results from table (2-4) , since Sig in each one of the studied years from 2005-2010 is less than 5 % , H0 with confidence of 95 % is rejected .It means that profit prediction accuracy per share is effective on the risk of liquidity.

3.3.4 Test of H3

H3 : reliability of reported information is effective on the risk of liquidity.

This hypothesis is presents statistically as follows :

H0 : the reported information reliability is not effective on the risk of liquidity .

H1: the reported information reliability is effective on the risk of liquidity.

In order to test the H3, initially the reliability of information as a independent variable in the end of each financial year was calculated , on the other hand the risk of stock liquidity for all companies was measured in the end of each financial year , then by having the related values of each one of these two variables using the statistics introduced for the test of research's hypothesis , we test the hypothesis as follows :

Table (3-4) correlation factor, determinant factor, adjusted determinant factor

R	R ²	Adjust R ²	F	df	Sig	TEST RESULT	TEST YEAR
-0.194	0.038	0.029	4.127	1	0.045	EFFECTIVE	2005
-0.191	0.036	0.027	3.963	1	0.049	EFFECTIVE	2006
^{-0.27}	0.073	0.064	8.231	1	0.005	EFFECTIVE	2007
-0.191	0.037	0.027	3.989	1	0.048	EFFECTIVE	2008
-0.198	0.039	0.03	4.282	1	0.041	EFFECTIVE	2009
-0.208	0.043	0.034	4.75	1	0.032	EFFECTIVE	2010

According to the results from table (3-4) , since the Sig in each one of the studied years from 2005 to 2010 is less than 5 % , H1 with confidence of 95 % is going to be confirmed . it means that the reported information reliability is effective on the risk of liquidity.

4.3.4 test of H4

H4: profit evaluation model is effective on the risk of liquidity.

This hypothesis is presented statistically as follows :

H0 : stock evaluation model is not effective on the risk of liquidity .

H1: stock evaluation model is effective on the risk of liquidity .

In order to test the H4 , initially stock evaluation model was calculated as an independent variable in the end of each one of the financial year , on the other hand the risk of stock liquidity for all companies was measured as a dependent variable in the end of each financial year , then with having the value related to each one of these two variables using the statistics introduced for the test of research' hypothesis , we have tested the hypothesis as follows:

Table (4-4) correlation factor ,determinant factor , adjusted determinant factor

R	R ²	Adjust R ²	F	df	Sig	TEST RESULT	TEST YEAR
0.129	0.017	0.007	1.769	1	0.186	EFFECTIVE	2005
0.181	0.033	0.024	3.599	1	0.062	EFFECTIVE	2006
-0.177	0.031	0.022	3.382	1	0.069	EFFECTIVE	2007
0.165	0.027	0.018	2.926	1	0.09	EFFECTIVE	2008
0.183	0.033	0.024	3.628	1	0.06	EFFECTIVE	2009
0.181	0.033	0.023	3.544	1	0.063	EFFECTIVE	2010

0 is more than 5 % , H0 with confidence of 95 % is rejected . it means that the stock evaluation model of company is not effective on the risk of liquidity.

Conclusions

The quality of accounting information is counted as an important factor in the field of market researches. , this feature is so much important that it was addressed separately in the theoretical frameworks of Iran's accounting standards. Since the presentation of qualitative, related , reliable , timely and comparable information emerges around the financial statements of all companies of world , it seems that this feature generally as well as its related variables can specially penetrate in the different researches of the investment market and influence it.

Therefore, this research is an appropriate strategy to reduce the risk of stock liquidity and presenting a new method in measuring the qualitative features of accounting information and can have an important role in analyzing the financial and commercial risk . the results of research also shows the effect of qualitative features of accounting on the risk of liquidity is significant regarding the three variables of research and is not significant regarding the one variable. The effect of accounting information quality on the risk of stock liquidity confirms the results of Jeffry Ng's research (2008) indicating the effectiveness of accounting information on the risk of liquidity as well as results of Abhijit Barua's research (2006) indicating the use of FASB's qualitative features in measurement of profit quality.

This can be explained as this that , during the time the listed companies in the fledgling market of Iran's stock exchange tried to offer the clear , reliable , proper and honest and qualitative information and every time we observed that it has been done properly , and here the information could be effective in the explanation of the dependent variable of research , therefore in each part that the information were not properly presented, especially not only any impact wasn't observed in the stock value , but in some parts of it , has some impacts far from the mind , the lack of proper presentation of information in the stock values can be due to the low promotion and being low the exchange level in Tehran stock exchange market as well as the lack of full respect for the qualitative information features.

And this can be resulted to employment of other variables in order to study of stock liquidity risk and effective factors in reducing this kind of risk , therefore according to the research of Jeffry Ng (2008) , it can be concluded that the accurate , related , timely , qualified and perfect presentation of information can be used to increase the stock liquidity of stock exchange companies as well as helps to the investors to invest in all types of stock transactions .

Suggestions :

It I suggested that all companies ranging from listed in stock exchange or beyond it , must apply their perfect accuracy and exactness in providing the financial and non-financial information and provide timely , related m reliable information for investors and financial analysts as well as all topics presented in the accounting standards of Iran and its theoretical frameworks must be observed away from personal interests and this information while goes to be observed its qualitative feature of perfectness, to be used in the stock exchange market and by other users.

This may cause that the users to be able to prepare their required information and not only one part of them from the stock exchange market as well as will cause a comprehensive database of information to be at the disposal of public , a database which can be relied on its confidence and users to be sure about the full respect of rules and regulations.

Research restrictions:

Any research is affected by restrictions which are not controllable . the current research is affected by the restrictions which are as follows:

- Unfortunately , the information related to the listed companies in the stock exchange of Tehran are not offered to the stock market properly , most of the information required for this research about the companies ,are not offered , therefore the variables of research were switched so many times.
- One of these variables was the being related of accounting information that its required data was not available in the stock exchange , therefore this variable that is from the primary qualitative variables and its measurement can has a significant effect on the stock liquidity , and due to lack of required data , was removed from the list of accounting information's qualitative variables.
- Due to the conditions governing the Tehran stock exchange during the last decade (regarding the international economic sanctions upon our country , the process of privatization, etc. ..), the process of stock price changes of companies had an irregular trend that it is possible that
- in the case of research's hypothesis test in terms of the rule of country's economic stability, and becoming ruled the process of companies stock price changes such as the conditions governing the process of stock price changes in developed and developing countries
- As well as the lack of annoying and intervening variables as well as economic sanctions on the country and ... that in exchange for securities of other countries is not ruling, the results of research is different with the results of aforementioned research.

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