The Reviewing of the Relation Between the Type of the Profit Management and Profit Quality of Financial Helpless Companies

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Abstract: Since, the financial helpless companies and non-financial helpless companies have different techniques in management of profit and quality of profit. The study with classification firms of bankrupt and helpless and measuring the quality of profit through four attributes of quality of profit in every category, the relation between quality of profit and future profitability as alternative variable for profit management is for answering to this question that "what is relation between bankrupt and helpless companies with kind of management of profit?

Key words: Earnings management, earnings quality, earnings persistence, profit forecasts, quality accruals

INTRODUCTION

In recent years research in the field of accounting, earnings management issue has been of interest to researchers. Earnings management occurs when the director of judgment for misleading financial reporting about actual economic performance and effect on the results of contracts that depend on reported accounting figures use (Healy and Wahlen, 1999).

Many efforts have been made to classify earnings management, one of which is classified as earnings management is efficient and opportunistic. If you manage the process of transferring your information to stakeholders within the organization of discretion and judgment-personal use profits are screened so that future profitability will increase corporate value through profit management will be effective. And if management's discretion and personal judgment in order to increase their own interests and profits in a way that increases the value of the company is not distorted, be opportunistic earnings management (Subramanyam, 1996).

Review of previous research: Li *et al.* (2011) examined the relationship between earnings management and earnings quality in the companies began to go bankrupt and stressed. They studied three groups of companies represent companies in bankruptcy and stressed, opportunistic earnings management, unsuccessful and stressed companies, efficient management and unsuccessful companies and non-financial stressed, adopt effective earnings management.

Fivos and Leonidas in a study entitled "Corporate Governance and Earnings Management, Accruals" relationship between corporate governance and earnings management looked accruals. Their results showed a negative relationship between corporate governance and earnings management companies that there is a high level of corporate governance have lower earnings management, resulting in higher earnings quality.

Chang and Shiva surveyed at the effects of gains on profit prediction feature. The researchers speak up for the overall management of the profits generated power reduced earnings forecast. However, when the decides with the highest level of earnings management, not only can reduce the profit forecast but the team's findings can be considered indicative of the behavior of earnings management awareness. Finally, the researchers express that their results strongly opportunistic earnings management is not supported.

Siregar and Utama (2008) study examined the relationship between earnings management and future profitability. They examine the relationship between discretionary accruals and future profitability, the effect of discretionary accruals on three variables future operating cash flows, net income accruals and future involuntary changes in future income examined. In his research test the ability of discretionary accruals on future profitability information in the field of power or effectiveness of opportunistic earnings management tested. Their studies showed that in the now-Indonesian, earnings management tends to work.

Jiraporn *et al.* (2008) in a study using agency theory, the differentiation between applications and the usefulness of earnings management's opportunistic. They argue that if managers virgin benefit management, benefit opportunistic in that case, firms with high agency costs have a high degree of earnings management are handled. The results of their study showed an inverse relationship

between agency costs and earnings management and companies that manage large profits (limited) disciplines, agency costs less (more) incur.

Tian the effects of valuation gains in corporate profits, the relevance of the test because the profit of one of the most important inputs in valuation models accounting firms. The ability to profit in the current period performance and future reflection, a key factor in determining the intrinsic value of the company. The results showed that earnings management utility detrimental impact on the valuation of the company's profits, since it reduces the information content of earnings.

Gul in a study as to the results Sabramanyam (1996) is consistent with the efficient and profitable management, the results of their study showed that companies with high growth, discretionary accruals and earnings management effectively interpret market but most likely for companies with high debt ratio, discretionary accruals earnings management market opportunity is interpreted.

Yoon and Miller (2002) the relationship between cash flow from operating activities and earnings management in South Korea investigated. The results showed that when the company's operating performance is poor, the company is using management techniques to further illustrate its profits are profits.

Guan *et al.* (2001) in their study concluded that one of the reasons that companies because of its high ratio of debt to earnings management of their investment is doing so that whatever is the higher proportion of management increasingly more profit generation. They also showed that managers of large companies use their corporate tax accruals less.

Burgstahler and Dichev (1997) study entitled "Earnings Management to Avoid Reduced Income and Loss Report" found evidence that showed managers to avoid reporting the loss or reduction of earnings management, earnings it. They argue that managers, reported profits in order to avoid or reduce revenue losses are reported. The results are consistent with management's opportunistic behavior.

Sabramanyam (1996) on future profitability and the effect of smoothing earnings management on future profitability and changes in the current and future dividends tested. Evidence suggests that income smoothing, sustainability implies the ability to increase reported earnings and discretionary accruals, earnings predictabilityon strength, future profitability and changes in dividend increases. His research results are consistent with the efficient and profitable management.

Assumptions: In order to explain the hypothesis, first to study and describe variables will be discussed. The variables are dependent and independent variables. Then explain to the hypothesis of the research will be discussed.

Problem statement: In economic affairs, users are always accurate and reliable information to the decision-making and carrying out analyzes required and naturally, a lack of appropriate and relevant, it is an interference in their decision-making (Saghafi and Sadid, 1386). But, it should be noted that profit as the most important source of information may not reflect the actual performance of firms and their management, because of the flexibility inherent in accounting standards, the interpretation and application of accounting methods in many the function of judge and apply evenly managers. Several managers expressed their motivations for applying mainly include incentive bonuses, politically motivated tax incentives, change management, companies entering the stock exchange.

Earnings management is a global phenomenon in financial reporting and dissemination of information related to profit and the target company's management, the earnings quality in accordance with the needs of stakeholders (Francis *et al.*, 2004) Given that earnings management is closely related to earnings management earnings quality is typically measured by earnings quality.

In general, we can say that the accounting information reported to help users to make better decisions, they are more quality information. There are various measures for assessing the Earnings Qualityincluding accruals quality, sustainable, profit forecasts and smoothing indices that measure earnings quality is concerned (Francis *et al.*, 2004).

The accruals are considered as an important indicator of earnings quality. This figure is the difference between earnings and cash flows related shows, due to the principles of compliance and implementation, timing of transactions and the accounting procedures, quality affects profit. Quality accruals, regression based on operating cash flows before changes in working capital was present and future. So that, the higher the standard deviation of regression is less waste, higher quality accruals (Dechow and Dichev, 2002). A further benefit is the ability to maintain the sustainability of current earnings and profits with better quality and a higher coefficient and if profit is fleeting and a low coefficient of non-quality (Saghafi and Sadid, 1386). Direct and significant relationship between earnings quality and earnings forecast is so much more earnings forecast

reflects higher earnings quality (Francis *et al.*, 2004). Income smoothing as the standard deviation divided by the standard deviation of operating cash flow is the profit benefit as more quality that is less smooth.

Despite the financial crisis in the company, could eventually lead to bankruptcy and loss of control of the Company. So, we can already forecast the financial crisis and the measures adopted on the review of the Company's control. With the change in control of the company and all necessary measures will be the financial crisis and eventual bankruptcy of the company are prevented. Academic and research centers in developing predictive models for decision-making and financial crisis many have done The use of financial and accounting information useful in predicting bankruptcy and is of great significance (Dastgir *et al.*, 1391).

During its operational life-cycle businesses are experiencing ups and downs and always some units because of its strong performance as successful and some unsuccessful due to poor performance as units are known. Companies that have deteriorating due to its continued poor performance in their financial, naturally in every possible way try to get out of this situation, your financial situation and in case of failure in this system; bankruptcy is a sequel that is awaiting them. One of the ways that managers may be stressed companies to hide their poor performance (to seize opportunities and delaying bankruptcy) to use it, if the increase in earnings manipulation that leads to a reduction in the reliability of companies' profits. The management of increased profits, reduced the conditional conservatism in the companies which means that the profits these companies have Non-conservative fee and in fact, the quality of corporate profits is lower than the healthy companies are stressed because of the low rate of earnings management and accounting literature when the influence of bad news (conditional conservatism) aspects benefit is the high quality by Dastgir *et al.* (1391).

According to the statement and the stressed and non-stressed since the company profit and earnings quality management techniques are different. The study classified the companies in bankruptcy and insolvency and measure earnings quality through four qualitative characteristics of interest in each of these classes, the relationship between earnings quality and future profitability as a alternative variable for earnings management in order to answer this question, that is, earnings quality bankrupt and stressed companies what to do with the type of management is the company's profit?

MATERIALS AND METHODS

Since, the results of this study can be used in the process of financial decisions, this research in terms of functional purpose. Also, this research is descriptive in nature which, researchers sought to assess how the relationship between two or more variables is. In this study, multivariate regression models to test hypotheses and combination of data will be used. In the combined data and the compilation of test F Limer panel to choose between methods used. If you select a panel method, Hausman test methods for selection of fixed effects and random effects is done. Statistical analyzes done through the software Excel and Eviews. Finally, research hypothesis through the test-t, F-Fisher and the coefficient of determination (R^2) tested class.

The purpose of the study: As, it was said in the statement, earnings quality and earnings quality is evaluated using four characteristics. Therefore, in this study the relationship between earnings management and earnings quality of the four criteria accruals quality, stability, profit, profit prediction and smoothing will be used. The objectives of this study are as follows:

- A: to determine the relationship between accruals quality and earnings management bankrupt and stressed companies
- B: the relationship between earnings persistence and earnings management bankrupt and stressed companies
- C: the relationship between earnings predictability and earnings management bankrupt and stressed companies
- D: the relationship between income smoothing and earnings management bankrupt and stressed companies

Community and the sample: The population of this research firms listed in the Tehran Stock Exchange. The reason for this choice can access the company's financial information and they are more homogeneous because of Tehran Stock Exchange's regulations and standards. The research period is limited to 1382-1390 and taking into account the characteristics of the study sample will be selected:

- March is the end of its fiscal year ended
- To 1382 are listed in the Tehran Stock Exchange by the end of 1390 are not out of stock
- The company's fiscal year does not change during the study period

- Company trading symbol active and at least every three months, once a year is traded.
- Financial information is available during the study period

Methods and tools for data collection and data preparation: In this research, the library will be used to collect, review of literature. The information related to literature research using library resources, books and articles collected in the library universities in throughput. The information needed to calculate variables as documentaries mining of faces financial firms listed in the Tehran Stock Exchange will be extracted. The data collection tool also includes information published by the Tehran Stock Exchange and information science software Tadbiyrpardazan and the Rhaavadrevovin related and other online resources have tools for data collection in this research.

The terms of the sample: The population of all the companies that have the following terms as sample chosen and others eliminated:

- For the period 2002-2011 have presented in the Tehran Stock Exchange
- The financial year is end of 29 March every year
- During the time of study does not change the financial year
- The company's trading symbol active and at least every four months, once their shares are traded
- The data is available

Also in this research, bankrupt and helpless companies are divided into four groups three of which have just been considered.

Research hypothesis
- H_1: there is a meaningful relation between optional items quality and profit management of the financial bankrupt and helpless companies
- H_2: there is a meaningful relation between profit stability and of profit management of the financial bankrupt and helpless companies
- H_3: there is a meaningful relation between profit forecast and profit management of the financial bankrupt and helpless companies
- H_4: there is a meaningful relation between profit smoothing and profit management of the financial bankrupt and helpless companies

Inferential analysis of data: Before the statement hypothesis testing, inferential analysis data are expressed.

Determine the COMBAINED data types: In order to choose between using panel data and compilation data of model, we will use of Limer F-test and if accepted test panel data methods we will use of the Hausman test to choose between a fixed or random effects model.

Autocorrelation deficiency residuals test: To Autocorrelation deficiency residuals test of the Durbin-Watson test is used. If the Durbin butWatson is about 2, there is no correlation.

Volatility deficiency residuals test: Test to assess heterogeneity of variance White (White Test) is used. In this test, if the p-value is greater than 0.05, there is consistency residual variance.

RESULTS AND DISCUSSION

Analysis of data: The information analysis of data dterminate of combination data is shown in Table 1. Inferential analysis data (autocorrelation deficiency residuals test) in Table 2. Inferential analysis data (variance of the remaining dissonance test) in Table 3. Hypothesis test-first hypothesis is shown in Table 4.

Hypothesis test-first hypothesis
The results of first hypothesis: The first theory of research says, "There is a meaningful relation between quality of contractual and the management of profit of the financial bankrupt and helpless companies". This theory was tested for two groups of helpless and non-bankrupt companies and non-helpless and non-bankrupt ones. The result showed that there is a meaningful relation between the quality of contractual in helpless and non-bankrupt companies with cash flow operational and net profit of non-optional contractual items but has no meaningful relation with the profit changes. Thus, given two out of three variables have relations, we can conclude that the first theory of research is accepted. Also, the index of optional contractual items for the variables of cash flow operational and profit changes is positive and for variable of the net profit of non-optional contractual items, negative. Therefore, it can be concluded that the profit management in this group of companies is efficient.

Hypothesis test-first hypothesis
The results of first hypothesis: There is a meaningful relation between the optional contractual items in

Table 1: Results of F-Limer and Hasman

Hypothesis/variable	F Limer test			Hasman test		
	F Limer test	Probability	Result	Chi-square test	Probability	Results
First hypothesis						
Cash flow operational	1.12	0.29	Combined	-	-	-
Net profit of non-optional contractual items	0.78	0.84	Combined	-	-	-
Earn changes	11.31	0	Panel	4.06	0.4	Random effects
Second hypothesis						
Cash flow operational	1.19	0.2	Combined	-	-	-
Net profit of non-optional contractual items	1.16	0.18	Combined	-	-	-
Earn changes	11.5	0	Panel	24.12	0	Fixed effects
Third hypothesis						
Cash flow operational	1.2	0.2	Combined	-	-	-
Net profit of non-optional contractual items	1.16	0.18	Combined	-	-	-
Earn changes	15.23	0	Panel	5.98	0.2	Random effects
Fourth hypothesis						
Cash flow operational	1.13	0.28	Combined	-	-	-
Net profit of non-optional contractual items	1.28	0.06	Combined	-	-	-
Earn changes	9.62	0	Panel	0.35	0.98	Random effects

Table: 2: Results of statistics Dorbin-Watson

Hypothesis/variable	Statistics Dorbin-Watson	Autocorrelation
First hypothesis		
Cash flow operational	2.16	Dose not
Net profit of non-optional contractual items	1.55	Dose not
Earn changes	1.51	Dose not
Second hypothesis		
Cash flow operational	2.16	Dose not
Net profit of non-optional contractual items	1.58	Dose not
Earn changes	1.93	Dose not
Third hypothesis		
Cash flow operational	2.05	Dose not
Net profit of non-optional contractual items	1.57	Dose not
Earn changes	1.55	Dose not
Fourth hypothesis		
Cash flow operational	2.05	Dose not
Net profit of non-optional contractual items	1.57	Dose not
Earn changes	1.55	Dose not

Table 3: Results of statistics Dorbin-Watson

Hypothesis/variable	F-values	p-values	Variance of the remaining dissonance
First hypothesis			
Cash flow operational	1.16	0.32	Dose not
Net profit of non-optional contractual items	2.12	0.21	Dose not
Earn changes	1.78	0.24	Dose not
Second hypothesis			
Cash flow operational	0.78	0.54	Dose not
Net profit of non-optional contractual items	1.10	0.12	Dose not
Earn changes	0.98	0.98	Dose not
Third hypothesis			
Cash flow operational	0.70	0.65	Dose not
Net profit of non-optional contractual items	0.62	0.34	Dose not
Earn changes	1.50	0.10	Dose not
Fourth hypothesis			
Cash flow operational	1.90	0.07	Dose not
Net profit of non-optional contractual items	0.99	0.12	Dose not
Earn changes	1.54	0.08	Dose not

Table 4: The results of data analysis for first hypothesis test

Models	$CFO_{j,t+1}$		$NDNI_{j,t+1}$		$\Delta NI_{j,t+1}$	
	Factors	p-values	Factors	p-values	Factors	p-values
Financial insolvency-non bankrupt						
DAC	180633.1	0.01	41583.95	0.00	431549.7	0.04
NDAC	180371.2	0.01	-42422.97		561414.5	0.01
CFO	0.6	0	0.78		0.73	0.04
AQ	-0.1	0.04	0.05	0.08	0.67	
F-test	(0.00) 14.88		(0.00) 75.94		(0.00) 32.23	
R^2	0.24	0.07	0.42			

Table 4: Continue

Models	CFO$_{j,t+1}$		NDNI$_{j,t+1}$		ΔNI$_{j,t+1}$	
	Factors	p-values	Factors	p-values	Factors	p-values
Adjusted R^2	0.23	0.69	0.41			
Financial insolvency-non bankrupt						
DAC	118217.6	0	229930.8	0	89884.1	0
NDAC	117101.5	0	228134.5	0	98431.4	0
CFO	0.32	0	0.64	0	0.25	0
AQ	-0.41	0	-0.10	0	0.34	0
F-test	(0.00) 274.7	0	(0.00) 164.1	0	(0.00) 285.8	0
R^2	0.87		0.08		0.87	
Adjusted R^2	0.86		0.79		0.86	

Table 5: The results of data analysis for second hypothesis test

Models	CFO$_{j,t+1}$		NDNI$_{j,t+1}$		ΔNI$_{j,t+1}$	
	Factors	p-values	Factors	p-values	Factors	p-values
Financial insolvency-non bankrupt						
DAC	82672.5	0.02	-26945.5	0	378523.8	0
NDAC	83163.1	0.02	-27675.9	0	454537.4	0
CFO	0.4	0	0.83	0	0.6	0
EP	10356.0	0	1885.57	0.05	-28877.0	0.01
F-test	(0.00) 16.40	0	(0.00) 435.2	0	(0.00) 145.0	0
R^2	0.24	0.89	0.74			
Adjusted R^2	0.23	0.89	0.73			
Financial insolvency-non bankrupt						
DAC	88362.6	0	161662.9	0	191081.9	0
NDAC	88684.6	0	161448.7	0	195797.8	0
CFO	0.2	0	0.5	0	0.5	0
EP	41179.4	0.01	-2259.8	0	3943.5	0.01
F-test	374.5		26.1		74.9	
R^2	0.89		0.36		0.62	
Adjusted R^2	0.89		0.35		0.61	

non-helpless and non-bankrupt companies with the three variables profit changes, cash flow operational and net profit, so the first theory of research in this group of the companies is accepted. Also in this theory, by comparing the two groups of the companies and according to a research done by Li *et al.* (2011), it was shown that the profit management in non-helpless and non-bankrupt companies is more efficient than helpless and bankrupt ones (Table 5).

Hypothesis test-second hypothesis

The results of second hypothesis: The second theory of research states, "There is a meaningful relation between stability of profit and the management of profit of the financial bankrupt and helpless companies". This theory was tested for two groups of helpless and non-bankrupt companies and non-helpless and non-bankrupt ones. The result showed that there is a meaningful relation between the stability of profit in helpless and non-bankrupt companies with three variables profit changes of cash flow operational and net profit of optional contractual items, so we can conclude that the second theory of research is accepted. Also, the index of optional contractual items for the variables of cash flow operational and profit changes is positive and for variable of the net profit of non-optional contractual items, negative.

Hypothesis test-second hypothesis

The results of second hypothesis: There is a meaningful relation with three variables profit changes, cash flow operational and net profit of optional non-contractual items, so the second theory of research in this group of the companies is accepted. Also, in this theory by comparing the two groups of the companies and according to a research done by Li *et al.* (2011), it was shown that the profit management in non-helpless and non-bankrupt companies is more efficient than helpless and bankrupt ones (Table 5).

The importance of the issue: In the financial literature, earnings as the first source of information of companies and investors to profit, more than any other criteria as a measure of performance, reliance on them.

In addition, managers also consider profits as a key benchmark for investors and analysts in their assessment of its use. Accepted principles and accrual basis accounting to permit administrators to transfer data in financial reporting and diagnosis to exercise their judgment. Judges exercise their powers by managers and financial reporting process to "manage earnings" is known. Literature earnings management, favorable or unfavorable impact of earnings management to make

judgments about the usefulness of accounting information does not help much in fact, the evidence is largely inconsistent and inconclusive. One of the main reasons for the neglect of research on the quality of accounting information to investors is important.

Flexibility in accounting standards in some cases, to choose the method of accounting is focused on the professional judgment of accountants. Therefore, profit management in some cases misleads the Financial Statements. So, as the types of earnings management in bankrupt companies and stressed for administrators and other users of financial statements of these companies, especially investment decision is helpful. As well as scholars, researchers, regulators and standard-able results in order to evaluate the financial condition and performance of business units, about the quality of earnings, earnings management and foresight bankrupt and stressed companies and help improve models predicting bankruptcy by addressing explicit management efforts to hide the shortcomings of your performance and make better economic decisions. This study used a measure of influence over the decisions are based on the index provides earnings management.

Hypothesis test-third hypothesis
The results of third hypothesis: The third theory of research states, "there is a meaningful relation between forecast of profit and the management of profit of the financial bankrupt and helpless companies". This theory was tested for two groups of helpless and non-bankrupt companies and non-helpless and non-bankrupt ones. The result showed that there is a meaningful relation between the forecast of profit in helpless and non-bankrupt companies with three variables profit changes, cash flow operational and net profit of optional contractual items, the third theory of research is accepted. Also, the index of optional contractual items for the variables of cash flow operational and profit changes is positive and for variable of the net profit of non-optional contractual items, negative. Therefore, it can be concluded that the profit management in this group of companies is efficient.

Hypothesis test-third hypothesis
The results of third hypothesis: There is a meaningful relation forecast profit the financial bankrupt and helpless companies so the third theory of research in this group of the companies is accepted. So, the index of contractual items for every variables are positive. Also in this theory, by comparing the two groups of the companies and according to a research done by Li *et al.* (2011), it was shown that the profit management in non-helpless and non-bankrupt companies is more efficient than helpless and bankrupt ones.

Hypothesis test-fourth hypothesis: The results of fourth hypothesis: the fourth theory of research states, "there is a meaningful relation between smoothing of the profit and the management of profit of the financial bankrupt and helpless companies". This theory was tested for two groups of helpless and non-bankrupt companies and non-helpless and non-bankrupt ones. The result showed that there is a meaningful relation between the smoothing of profit in helpless and non-bankrupt companies with cash flow operational and profit changes but has no meaningful relation with the net profit of non-optional contractual items. Thus, given two out of three variables have relations, we can conclude that the fourth theory of research is accepted. Also, the index of optional contractual items for the variables of cash flow operational and profit changes is positive and for variable of the net profit of non-optional contractual items, negative. Therefore, it can be concluded that the profit management in this group of companies is efficient.

Hypothesis test-fourth hypothesis
The results of fourth hypothesis: There is a meaningful relation between the smoothing of profit in non-helpless and non-bankrupt companies with the net profit of non-optional contractual items and profit changes but has no meaningful relation with cash flow operational. Thus, given two out of three variables have relations, we can conclude that the fourth theory of research is accepted. Also in this theory, by comparing the two groups of the companies and according to a research done by Li *et al.* (2011), it was shown that the profit management in non-helpless and non-bankrupt companies is more efficient than helpless and bankrupt ones.

Research limitations: In view of the fact (2008) that the statistical sample is limited, the number of helpless and bankrupt companies is few which is not possible to examine research theories for this group of companies.

The time period of this research is between the years 1381-1390 in solar calendar (2001-2011), thus, the extension of the results of this period to previous ones or after the mentioned period should be done cautiously. Given the method of sampling, many industries including financial brokerages have been eliminated from statistical sample due to lack of the considered terms.

Inflation causes the financial situation and the results of the companies' performance are not shown correctly in the information of financial statements. Thus, it is possible that different results are produced in view of considering the inflation effect.

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