

Study about fair value accounting of non-current asset and audit fees in accepted companies in Tehran stock exchange (TSE)

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Abstract

The purpose of study of this survey is to investigate fair value accounting of non-current asset and audit fees in accepted companies in Tehran stock exchange (TSE). Independent variables of this survey are revaluation of assets, revaluation of assets in ascending state and periodicity of revaluation of assets, and dependent variable is the audit fees. Sample, containing 114 accepted companies in Tehran stock exchange (TSE) from 2008 to 2014 and software used for statistic analyze is Sata 12. Hypotheses have been tested based on linear regression exam. Based on results of the hypotheses exam, the first hypothesis, second and third one indicate that revaluation of assets and periodicity and growth of that has a positive relation with audit fees in Tehran stock exchange (TSE).

Keywords: accounting fair value, revaluation of assets, revaluation of assets in ascending state, periodicity of revaluation of assets, audit fees

Introduction:

Today's one of the considerable discussions about finance crisis's in the world is fair value accounting for financial assets (Barth landsman, 2010). Therefore in according to absence of efficient evidence about costs and advantages (benefit) of use of fair value accounting for nonfinancial assets like effects, equipment, present investment and nonvisible assets, a background for managers in order to choose historical cost or fair value is provided. Based on studies of Goncharov et al. in 2013 that surveyed about accounting fees that shows representation costs dealing with evaluation methods of assets like these. In according to standards of international financial statements that approved in 2005, acknowledges to choose between historical cost methods and fair value for effects, equipment, investment of effects and stock in Australia. Financial accounting standard board (FASB) about invisible assets accept that some of relatively unusual assets in active and efficient markets are determined by fair value. By choosing fair value method, fees of auditor has increased because of a lot of complexity and job value mistakes (Ettredge et al. 2013) because of this, audit costs makes a considerable positive and weak relation between revaluation of assets and accounting fees, and this also could be the reason why revaluation of assets in stock corporation, increased accounting fees. Representation warn about increase of risk of information of company doing representation caused by reducing credit of financial statements and low quality of accounting. Also representation maybe warn to investors about probably worse economy situation of the company. Jeffrey Burkes (2008) believes that increase in the representation is because of hard working of managers, board of directors and auditors in reviews that cause better transparency and investors trust. Palmrose et al. (2004) believe that necessity to representation is determined by company, auditor or stock exchange commission. They think that announce of representation that is determined by people outside of organization (independent auditor or stock exchange commission), have a negative sign that will front to more negative reaction of markets. If auditors detect the deviations instead of managing, it is expected to increase in supervision fees. Representation of financial statements come from offer of independent auditors, have a greater influence on stock price, information risk and financing of stock owners' salary. Harry bar and Jenkins (2004) believe that relation between representations suggested by independent auditor and managing the company is not much distinguishable.

For example the company may said to be as insister to release representation. But this is may be too that auditor persistently gets involved with revaluation. Creating atmosphere of distrust in capital market, unreliable imagination of financial statements, try to access to the information in outside of exchange, losses come from wrong decisions of users of financial statements and at the end wastage of the public interest of society are parts of consequences of this. Therefore, representation and continues presentation of goods in sequent periods and propagate it in Iranian companies, will hurt credit of financial statements and cause to inefficiently allocation and distribution of wealth and reducing trust of people to the capital markets. One of the other negative consequences of representation of financial figures, is its effect on credit of auditing. Leo et al. (2009) stated that commission of stock exchange of America and users of financial statements, consider revaluation of this statements as weakness of auditor. Results of their researches showed that stock owners are willing more to dismiss the auditor after revaluation of financial statements. Beside this there are some studies too that claim rate of dismissing of auditors after revaluation of financial statements, is more than regular rate of dismissing of auditors (Henze et al., 2012 (6)). Audit profession has had considerable and fast changes in recently 20 years. Reducing in rules in audit job market, allow audit institution to be more following economic goals and be searching for increase in their income and decrease in costs in each audit job. In situations like this a successful auditor is who can have the best estimation of his highest fees in according to the properties of unit that is audited so in addition to maintain work quality, does the job with minimum cost (Nikbakht and Tanani, 2010). In according to tests and experiments about the value of nonfinancial assets, audit fees can be more or less because of representation problems. Therefore the purpose of this research is to investigate the relation

between revaluation of assets and audit fees and our expectancy of this survey, in according to research of Daiphy et al. (6), 2014 is that audit fees has positive relation with revaluation of assets. In this survey we are trying to find out the solution of this questions

First question: is there any meaningful relation between revaluation of assets and audit fees?

Second question: is there any meaningful relation between periodicity of revaluation of assets and audit fees?

Third question: is there any relation between revaluation of assets in ascending state and audit fees?

Research hypotheses:

After global crisis's that happened in years 2008-2009, several studies did about relation between fair value of non-financial assets (non-cash) and audit fees that based on studies (Ettredge et al., 2013) there is a positive relation between audit fees and revaluation of assets. And in order to determine the fair value of assets, auditors should try and work hard that will result in increase in fees. Also kumarasiri and Fisher, 2011, or martin et al. 2006, stated that auditing will increase when fronting fair value of nonfinancial assets (revaluation of assets) and duty of auditors will be heavier. This is the reason of sophisticated audit work and risk of auditors pleading. Therefore in according to the presented description we predict revaluation of assets experience will increase audit costs. Research hypotheses: there is a meaningful relation between revaluation of assets and periodicity of revaluation of assets and audit fees.

Literature review:

Derakhshi et al. (2015) investigated about influence of ownership structure and financial structure on audit fees. In recent years, competition for attracting masters, variety of non-auditing service presentation, perfidy and abandonment of moral standards by some people in audit profession have influenced on pattern of determining audit services fees and reassuring. Some of present evidence like Chan et al. (1993) studies and Francis and Simon (1987) studies shows that in addition to workload and (8), there is another factors too that are effective in determining the above services fees. Purpose of this research is to investigate influence of ownership structure and financial structure on the audit fees among accepted companies in Tehran stock exchange (TSE). For this purpose 92 companies between 2007 and 2013 are considered as sample. Research method is casual or after-occurrence method and analyze is done by regression and correlation method. In this research, variables such as ownership of institutional investors, free float stocks, ownership concentration and state ownership are used as ownership structure indexes and variables such as debt to assets ratio, long-term liabilities to non-current assets ratio and capital expenditure ratio are used as financial structure indexes. The results of this survey show that ownership concentration and state ownership has a positive influence on the audit fees and has a negative influence on ownership of institutional investors. Ebrahimi et al. (2014) surveyed about influence of ownership structure of company on audit fees and comments of companies independent auditors in according to importance of auditors duty about authenticating to the financial statements and this fact that combination of shareholders is one of the main internal factors of strategic system of companies, so the main purpose of this research is to survey the influence of ownership structure on the audit fees and comment of independent auditors among accepted companies in Tehran stock exchange (TSE). By test of separate hypotheses of survey and by use of multivariate regression by combined method for 69 companies in period of 2006-2011, cleared that stock ownership by institutional investors has a positive meaningful relation with audit fees of companies. Also, the result of research shows that stock ownership by institutional investors has a meaningful negative relation with exportation of audit conditional comment. And any meaningful relation wasn't observed between management ownership, audit fees and auditors

conditional comment. Dai Fei (Troy) Yao et al. (2013) investigated about auditing of conventional value of non-current assets and audit costs. We will survey about Relation between revaluations of non-current assets and audit fees by studies of 300 ASX companies between 2003 and 2007. We report that there is a considerable increase in paid audit costs when non-financial assets (PPE's, investment property and invisible assets) are measured by conventional value. We will also represent some evidences that meaningfully weakens independent evaluator of positive relation between revaluation of assets and audit fees. Beside this, in companies that are revaluating their non-current assets in ascending way and also in companies that are revaluating their non-current assets in ascending way every year, they have higher meaningful audit fees.

Other exams provide experimental evidences that say power of corporate governance has a reducing effect on accounting costs. This research helps the existing discourse about the role of conventional value accounting. Findings say that the costs of representation of the estimated conventional value may moderate benefits of conventional value accounting application.

Chiraz et al. (2013) showed that there is a meaningful negative relation between structure of ownership of shareholders and audit fees and there is a meaningful positive relation between institutional shareholders and audit fees. In another research, in Bangladesh, the effect of the structure of owner of company on audit fees was checked out and it's results showed that there is a meaningful negative relation between stocks ownership by administration managers, institutional shareholders, public shareholders and audit fees.

The method of testing hypotheses.

According to the combined nature of research data, data panel model is used for testing the research hypotheses. Research models are as follows:

Based on model 1, the first hypothesis is being tested. (Hau et al., 2015)

$$\text{LogAUDITFEES}_{it} = a + b_1 \text{ REVALUATION}_{it} + b_2 \text{ SIZE}_{it} + b_3 \text{ LEVERAGE}_{it} + b_4 \text{ CURRENT}_{it} + b_5 \text{ ROA}_{it} + b_6 \text{ audit}_{it}$$

'a' is vertical intercept, 'REVALUATION_{it}' is revaluation of assets of company 'i' in year 't', 'LEVERAGE_{it}' is the leverage of company 'i' in year 't', 'CURRENT_{it}' is current ratio of company 'i' in year 't', 'audit_{it}' is auditing quality of company 'i' in year 't', 'ROA_{it}' is efficiency of assets of company 'i' in year 't', 'SIZE_{it}' is the size of company 'i' in year 't', 'LogAUDITFEES_{it}' is audit fees of company 'i' in year 't'.

Based on model 2, the 2nd hypothesis is being tested. (Hau et al. 2015)

$$\text{LogAUDITFEES}_{it} = a + b_1 \text{ fre}_{it} + b_2 \text{ SIZE}_{it} + b_3 \text{ LEVERAGE}_{it} + b_4 \text{ CURRENT}_{it} + b_5 \text{ ROA}_{it} + b_6 \text{ audit}_{it}$$

'a' is vertical intercept, 'fre_{it}' is periodicity of revaluation of assets of company 'i' in year 't', 'LEVERAGE_{it}' is the leverage of company 'i' in year 't', 'CURRENT_{it}' is current ratio of company 'i' in year 't', 'audit_{it}' is auditing quality of company 'i' in year 't', 'ROA_{it}' is efficiency of assets of company 'i' in year 't', 'SIZE_{it}' is the size of company 'i' in year 't', 'LogAUDITFEES_{it}' is audit fees of company 'i' in year 't'.

Based on model 3, the 3rd hypothesis is being tested. (Hau and others, 2015)

Research results:

Results of hypotheses' tests by using the information of existing companies in Tehran stock exchange 2008-2014 show that:

1st hypothesis: There is a meaningful relation between the revaluation which is based on fair value for non-current assets and audit fees.

1st hypothesis proposed about revaluation of assets and audit fees in accepted companies among Tehran stock exchange (TSE) which was tested by multivariate regression statistical method and due to the results of data panel tests, the above hypothesis is approved. Auditing fees is affected by revaluation of assets. Also in according to its significance level (0.03) and coefficient (0.067), revaluation of assets has a meaningful positive relation with audit fees meaning that an increase in percentage of the revaluation of assets will increase the audit fees of companies. And the coefficient of determination (R²) of this hypothesis is 0.27 which shows one important fact that 27% of audit fees' changes are dependent on revaluation of assets. These results confirm results of Hau et al. (2015) and Dai fai et al. (2013) that said the audit fees will increase by revaluation of assets and differ from leuze laux et al. results (2009).

Table 1: results of testing the 1st hypothesis

Column	1 st hypothesis	significance level	Result
1	There is a meaningful relation between assets revaluation and audit fees	0.03	proved

2nd hypothesis: There is a meaningful relation between the periodicity of revaluation of assets and audit fees.

2nd hypothesis proposed about periodicity of revaluation of assets and audit fees among accepted companies in Tehran stock exchange (TSE) which was tested by multivariate regression statistical method and due to the results of data panel tests, the above hypothesis is approved. Auditing fees is affected by periodicity of revaluation of assets. Also in according to its significance level (0.004) and coefficient (0.429), it has a meaningful positive relation with audit fees. Meaning that an increase in the percentage of periodicity of revaluation of assets, will increase the audit fees of companies. And the coefficient of determination (R²) of this hypothesis is 0.28 which shows one important fact that 28% of audit fees' changes are dependent on periodicity of revaluation of assets. These results confirm results of Hau et al. (2015) and leuze laux et al. (2009) that said audit fees will increase directly by periodicity of revaluation of assets.

Table 2: results of testing the 2nd hypothesis

Column	2nd hypothesis	Significance level	Result
1	There is a meaningful relations between periodicity of assets revaluation which is based on fair value and audit fees	0.004	proved

Research proposals: due to the studies done in the field of surveying about the relation between revaluation which is based on accounting fair value for non-current assets and audit fees, these proposals are suggested to students and account researchers:

Due to the 1st research hypothesis about the relation between revaluation of assets and audit fees of accepted companies in Tehran stock exchange (TSE), it was declared that it is suggested to shareholders and activists of Tehran stock exchange to pay more attention to revaluation of non-current assets and its effect on audit fees of companies. Revaluation of non-current assets causes to decreasing financial structure of the company and also causes to improving company structure and providing necessary financing, so audit fees will increase.

Due to the 2nd hypothesis of research about the relation between periodicity of revaluation of assets and audit fees among accepted companies in Tehran stock exchange (TSE), it was declared that it is suggested to shareholders and activists of Tehran stock exchange (TSE) to pay more attention to revaluation of fixed assets as a factor for gaining extra yield. It is suggested to stock exchange organization to make companies announce comprehensive information to increase the decision-making power of shareholders by setting some rules.

Suggestions for next researches:

Researching about the relation between the revaluation of non-current assets which is based on fair value accounting and audit fees among accepted companies in Fara Bourse Co. Tehran stock exchange (TSE). The above research should be done in a larger statistical sample and especially for each industry. Doing a more varied research in a larger period and compare with results of this research. Researching about the effect of companies' performance on the relation between restatements of invisible assets and audit fees.

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