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THE EFFECT OF RESTATEMENT OF FINANCIAL STATEMENTS ON THE GROWTH OF COMPANIES LISTED IN TEHRAN STOCK EXCHANGE

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ABSTRACT
This study aimed to examine the effect of restatement of financial statements on growth of companies. The research population included companies listed in Tehran Stock Exchange from 2008 to 2012 and 80 of them were selected by systematic elimination. The data were gathered by library method and statistical analysis and hypothesis testing has been conducted using descriptive, cross-correlation method by EVIEWS7 and GLS method. The results indicate the positive influence of restatement of financial statements on growth of companies and that the companies that provide restatements compared to other companies have significant differences in growth.

KEYWORDS: Growth of companies, Q Tobin's ratio, restatement of financial statements, Stock Exchange, Tehran Stock Exchange.

INTRODUCTION

According to generally accepted accounting principles, financial statements of past years are restated due to two reasons, i.e. change in accounting procedure (principle) and accounting error correction. Whenever the amount of cumulative effects of procedure change is so significant that including it in profit and statement of change period would mislead the information for the consumers' use, extend to the past approach is used. In other words, with retroactively new approach financial statements of prior periods should be restated. If errors are not discovered in the current period their amount is also important, financial statements should be restated. In case of restating financial statements, cumulative adjustments related to prior years should not be included in determining the profit or loss of the period due to its association with the outcomes of the current period. The adjustments should be taken into account through restating figures of prior years. Accordingly, cumulative profit (loss) balance of beginning of the period will be also adjusted. Restating financial statement is necessary to create consistency and appropriate disclosure of information.
In recent years, the number of restated financial statements by publicly owned corporations is significantly growing. Increase in restatement indicates that the financial statements of prior period or periods published by manager that were approved by users in order to make decisions are improperly provided and unreliable. In fact, the restatement of financial statements reduces investors' belief in ability, confidence, integrity and reliability of financial reporting. From the perspective of investors, restatement news not only represent performance problem of the past but also is a kind of forecast of future problems for the company and its management. In other words, it results in lack of investor confidence in the credibility and competence of management and reduced quality of profits reported.

In fact, the restated financial statements clearly and explicitly present messages and signs about the lack of reliable financial statements of prior periods and their low quality. Therefore, subsequent to restatement, investors' expectations concerning future cash flows and their expected rate of return change.

In most cases, investors make decisions regarding their investments and seek to maximize their return. Therefore, any information by which it is possible to predict the growth of company is of shareholders interest [3]. Growth opportunity of company means using and taking advantage of investment opportunities in order to create or enhance corporate value [13]. Growth opportunity represents potential talent of company in investment. Growth opportunity is a driving force that motivates and rewards investors. Meanwhile, investors must always consider risk in their investment decisions because what leads to success is the use of investment opportunities available for which fiscal policies affecting growth opportunities in business units should be detected.
Restatement of financial statements damages contractual relations between the company and external units such as customers and has negative impact on the company's cash flow. This negative impact reduces the level of internal cash

balance applicable for investments and has a negative impact on company's growth especially the growth of internal financing.

Palmrose *et al*., (2004) showed that negative react of capital market to restatement of financial statements was due to two main factors: degradation of company's future prospects and increased uncertainty about the prospects. If the restatement of financial statements leads to uncertainty about the future prospects of the company, it will prevent the company's ability to reduce the cost of external funds. This inability can restrict company's investment and reduce company's growth.

Restatement of financial statements challenges quality of financial reporting of prior periods. This allows investors to make new decisions about the future of their investment in the company. Usually, investors transfer their portfolio towards lower risk investments and this affects the cost of capital of the company.

According to reviewed above, this study empirically seeks to identify and explain the impact of restatement of financial statements on the company's growth in order to provide information for investors and financial analysts to determine the credit competence of the companies. Therefore, the research question is:

Does the restatement of financial statements affect the growth of companies in Tehran Stock Exchange?

Literature

Rotenstein (2008) investigated changes in corporate governance after the restatement. The evidence shows that if the restatement reduces the prior reported earnings, this will reflect the company's poor performance and possibly governance changes will occur following the restatement.
The results showed that according to the methodology used to calculate the cost of capital, the cost of capital increased from 7 to 19% immediately after the restatement.

Plumlee and Lombardi (2008) in a study, "An Analysis of the Underlying Causes of Restatements", analyzed and stated the restatements occurred from 2003 to 2006 each of which is due to one of four reasons:

1. Internal error of the company
2. Intentional manipulation
3. Complexity of transactions
4. Some features of accounting standards about the restatements due to some features of accounting standards.

Also, specific features of the standards that are effective in restatement were tested. Obviously, in this study it was determined whether the restatements are related to:

1) Lack of standard clarity and directness or numerous articles about the standard due to low directness of the main standard.
2) Using professional judgments in applying the standards.
3) Unnecessary and inappropriate use of tough rules.

According to the above research, most restatements from 2003 and 2006 (57%) were due to internal basic errors of the company. In contrast, from the perspective of collective norm the main factor of most restatements is the complexity of accounting standards.

Callen *et al.*, (2008) in a study, "Is always accounting restatement unpleasant news for investors?" investigated a large sample of restated financial statements presented from 1986 to 2001 among companies listed in New York Stock Exchange and restatements resulted from changes in accounting principles were compared with restatements resulted from mistakes. According to this survey, investors generally consider restatement as a negative warning. This is potentially due to three reasons:

1) Restatements determine the issues related to accounting system which might express much broad operational (or managerial) issues.
2) Restatement leads to reducing modification in the expected future cash flows.
3) Restatement represents management's efforts to hide (cover) reduced profits by "structuring".

Micheal Etterdge (2009) in his study, "restatement disclosures and the following accounting conservatism by investigating 2132 restatements took place in American companies from 1999 to 2005 examined changes in corporate profits identification procedures after restatement disclosure in order to modify the previous reporting. He concluded

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those companies after the disclosure would have much conservative profits identification strategy in order to restore mutual benefit reliability. According to Etterdge, accounting errors resulted from restatement harm investor trust. Therefore, this will result in increased conservatism to offer profits.

Soroori Mehr (2006) in a study, "investigation of annual adjustments nature of corporate" studied annual adjustments nature and the reasons in the companies listed in Tehran Stock Exchange from 2001 to 2005. The main goal of the research was to acquire sufficient knowledge of annual adjustment components in companies of Iran and how to comply with the accounting standards, spatially Accounting Standard No. 6.
The main outcome of the study was that the hypothesis "companies do not adjust and restate their financial statements for annual adjustments" was confirmed. According to Soroori Mehr, the main reason of the restatement in Iranian companies was not annual adjustments.

Shariat Panahi and Kazemi (2010) in a study, "the impact of restatement of financial statements on information content of earnings", restatement of financial statements reduces information content of earnings and information content of earnings was reduced in the company whose main reason for restatement of financial statements was to modify errors resulted from revue recognition.

Sinaee and Rashidzadeh (2010) in a study, "the relationship between changes in market share with valuation of gains and opportunities for future growth of company" concluded that relevance of current earnings to value increases with growth in market share. However, there were no significant relationships between measures of changes in market share and growth opportunities.

Hasas Yegane (2012) in a study, "the impact of restatement of financial statements on earnings management and earnings stability" showed that there was a significant relationship between the restatement of financial statements and earnings stability. The relationship shows that the more the intensity of restatement of financial statements increases, the more earnings management (level of discretionary accruals) increases and the more the intensity of restatement of financial statements increases, the more earnings stability decreases.

Aghaee *et al*., (2003) in a study, "the impact of restatement of financial statements on the quality of accruals" showed that the variables of changes in firm size, changes in sales, changes in cash flow from operations, changes in debt ratio, market value to equity book value ratio, the percentage of institutional ownership and managing director enterprise course had significant relationship with changes in earnings quality in restatement firms.

Research hypotheses
According to the literature, in order to determine the relationship between restatement of financial statements and the growth of exchange companies some hypotheses were formulated as follows:
1. The restatement of financial statements affects the growth of the companies.
2. There is a significantly different between companies with restated financial statements and the companies without them.

MATERIALS AND METHODS
In this study, the data required for the literature was collected using library method and financial information of companies listed in Tehran Stock Exchange and in other databases was collected using field survey.

Statistical population
In order to fulfill the objectives of the study, i.e. to investigate the relationship between the restatement of financial statements and growth of companies, the research population consisted of all companies in which investors generally are allowed to participate in the process of shareholding. If it is not impossible to extend the range and identify the members if such a community, it will be so difficult to do so and in many cases it will be very costly and time consuming to access to their information. Therefore, the population was limited to the companies listed in Tehran Stock Exchange.

Statistical sample

Research population includes all companies listed in Tehran Stock Exchange from 2008 to 2012. In order to make the population homogeneous in implementation of hypotheses and generalization of the results, the following terms were considered about the companies (systematic elimination method):

1. Financial year of the company should end by the end of Esfand.
2. The company should not have changes in financial year during the study period.
3. They should not be investment companies and companies similar to them.
4. The trading symbol of the company should be active and the trading symbol should not be stopped or more than 4 months a year.
5. Within the specified time, they should have published the restated financial statements at least once.
6. The required financial information should be available.

According to what said, the research population included 80 companies. On the other hand, the study period was from 2008 to 2012. One reason to choose this time period was to extract financial statements and accompanying notes for the intended period time and during the 5-year period it was possible for the researcher to access to the required information.

RESEARCH HYPOTHESES TEST METHOD

The present research is an ex-post facto research in terms of time dimension. In the present study, the hypotheses are tested based on prior financial data of companies. The study is an applied research in terms of objective (nature) and the results are directly applicable to decisions of the users. It is also an analytical study that tests the hypotheses using the data and in order to explore the relationship between two variables, correlation method using pooled regression model (panel data) is used. In order to test the second hypothesis, Wilcoxon test was used. The study data included information obtained from financial reports of the companies listed in Tehran Stock Exchange that was calculated and extracted referring to databases and based on this the models were estimated to provide a basis for testing hypotheses. Data required was collected to verify the research hypotheses through Rahavad Novin Software and through the site of the Tehran Stock Exchange during from 2008 to 2012. After comparing and fixing the lack of coordination, Eviews 7 and SPSS were used for the final analysis.

Research models

In order to investigate the relationship and determine the level each dependent variable id influenced, the following models are examined:

$$GO = \alpha + \beta_1\,\text{RESTATEMENT} + \beta_2\,\text{ROA} + \beta_3\,\text{NI/NS} + \beta_4\,\text{ROE} + \beta_5\,\text{DIV/TA} + \beta_6\,\text{NS/NFA} + \beta_7\,\text{LTD/TA} + \beta_8\,\text{NFA/TA} + \beta_9\,\text{LOG\_TA} + \varepsilon$$

Growth opportunities:

$$Qtobin = \frac{BD_{it} + MV_{it}}{TA_{it}}$$

BD= Book value of debt
MV=Market value
TA= Total value of assets
RESTATEMENT = (livestock variable with two parts 0 and 1)
(1) For companies with restatement of financial statements and (0) for companies without restatement of financial statements.
ROA: (Return on assets ratio) ratio of profits after interest and tax to assets
ROE: (return on equity) ratio of net income to equity
NI/NS: net income after interest and tax divided by net sale
DIV/TA: total dividends divided by total assets
NS/NFA: net sales divided by net fixed assets
LTD/TA: long-term debt divided by total assets
LOG_TA: natural logarithm of total assets
NFA/TA: net fixed assets divided by total assets

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In the following, paired comparison test is used in order to check the second hypothesis (in the case of normal data) and test statistic is obtained as follows:

$$t = \frac{\bar{d}}{\frac{S_d}{\sqrt{n}}} \sim t_{n-1}$$

d: difference in the number of companies that have provided restatements with those that have not for each index for each company

$\bar{d}$: mean difference of companies for each index

S_d: Standard deviation values of companies for each index

n: number of companies

Null hypothesis is rejected if $|t| > t_{df.0.025}$ or significant quantity is less than 0.05 in which d_f (degrees of freedom) is equal to the number of privatized companies minus one.

In case of non-normality of the data, nonparametric statistics and signed rank test or Wilcoxon are used and to calculate the statistics the following equations were used:

T^+= total ranks of positive differences

Expected $$E(T^+) = \frac{n(n+1)}{4}$$

Variance $$V(T^+) = \frac{n(n+1)(2n+1)}{24}$$

For large values of n, $n \geq 15$, T^+ is almost normally distributed and z is obtained through the following equation:

$$Z = \frac{T^+ - E(T^+)}{V(T^+)}$$

If $Z > Z_{0.025}$, null hypothesis is rejected and the means are not equal. If $Z < Z_{0.025}$, hypothesis is approved and the means are the same with no difference.

Table (1): test results of the correlation between variables

correlation		Tobin's Q ratio	ROA	ROE	NI/NS	NS/NFA	DIV/TA	LTD/ TA	LOG_TA	NFA/TA
Tobin's Q ratio	correlation	1	–	–	–	–	–	–	–	–
	Probability	_								
ROA	correlation	0.474	1	–	–	–	–	–	–	–
	Probability	0.001	_							
ROE	correlation	0.097	.136	1	–	–	–	–	–	–
	Probability	0.57	0.006	_						
NI/NS	correlation	0.224	0.63	0.055	1	–	–	–	–	–
	Probability	0.001	0.001	.0.275	_					
NS/NFA	correlation	0.047	.0.094	0.015	0.066	1	–	–	–	–
	Probability	0.0457	0.006	0.762	0.187	_				
DIV/TA	correlation	0.025-	-0.032	-0.011	-0.037	-0.010	1	–	–	–
	Probability	0.624	0.525	0.831	0.459	0.839	_			
LTD/ TA	correlation	0.103-	-0.219	0.015	0.069	-0.065	0.028	1	–	–
	Probability	0.039	0.001	0.759	0.167	0.192	0.578	_		
LOG_TA	correlation	-0.148	-0.022	-0.092	0.141	0.082	-0.117	0.158	1	–
	Probability	0.003	0.662	0.066	0.005	0.10	0.019	0.002	_	
NFA/TA	correlation	-0.012	0.026	-0.033	0.128	-0.165	0.005	.0.493	0.070	1
	Probability	0.808	0.606	0.506	0.011	.0.001	0.925	0.001	.0.163	_

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Pearson correlation coefficient (r)

This correlation coefficient is a parametric method and used for normally distributed data or high number of data. It calculates the correlation between two distance or relative variables and its value is between +1 and -1. If the value obtained is positive, it means that two variables change in the same direction, i.e. as each variable increases the other variable increases as well. In contrast, if r value is negative, it means that two variables operate in opposite directions, i.e. as one variable increases the other variable decreases and vice versa.

If the value obtained is 0, it shows that there is no relationship between the two variables. If it is +1, there is a perfect positive correlation, and if it is -1, there is a perfect negative correlation.

According to the results of the correlation test, there is a significant correlation between the variables. As can be seen in the above table, there is 47% correlation between Tobin's Q ratio and ROA (return on assets). There is 22% correlation between Tobin's Q ratio and NI/NS (net income after interest and tax divided by net sale). There is 66% correlation between ROA and NI/NS.

The first hypothesis tests:

- ✓ **Durability (static) test of variables**

ADF test is one of the most useful tests to check durability of variables. It calculates critical value related to three levels of 1, 5, and 10% and also ADF value. If the absolute value calculated of ADF is greater than critical value (in this thesis criterion is 5%), H_0 is rejected and durability is confirmed.

Table (2): Durability test of variables (Dickey - Fuller generalized test)

Statistics / variables	t-Statistic		Prob
	ADF test statistic	Test critical values 5% level	
Q tobin	.9.134	2.868	0.001
ROA	.9.799	2.868	0.001
ROE	19.739	2.868	0.001
NI/NS	8.476	2.868	0.001
NS/NFA	19.884	2.868	0.001
DIV/TA	20.085	2.868	0.001
LTD/ TA	7.996	2.868	0.001
LOG_TA	.5.686	2.868	0.001
NFA/TA	.8.660	2.868	0.001

According to the results summarized in the above table and since the absolute values calculated by Dickey-Fuller generalized test are greater than critical values, H_0 is rejected and the series are durable. It can be stated that the hypothesis testing and regression are not false. Also, the calculated probabilities confirm the durability of the series.

- ✓ **Heteroscedasticity test**

One of the classical assumptions is similarity of additional variances in different periods. The violation of this assumption cause a problem called heteroscedasticity. Since in variance disturbing element is equal to dependent variable, heteroscedasticity problem is related to lack of variance similarity of dependent variable at different periods. It is assumed that with increase or decrease in independent variable, variance of the dependent variable (the residual) does not change. Cause of the problem could be related to data collection methods or increase in the number of variables that lead OLS model to the following problems:

- ✓ Despite the unbiased estimates, it is not efficient.
- ✓ Error variance is biased.
- ✓ The variance of coefficients is biased.
- ✓ **F** and **t** statistics are misleading.

In this study in order to investigate heteroscedasticity, White test was used.

H_0: homogeneity of variance

H_1: the variance anisotropy

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Table (3): Test results of the variance anisotropy

Independent variable	Dependent variable	F statistics	Probability
Growth of company	Qtobin	1.156	0.332

According to the above table and F statistics and the significance level calculated, null hypothesis is not rejected for H_1. Therefore, it can be said that the variance is the same for these assumptions.

- ✓ **Hypotheses test**

In order to distinguish between pooled or panel data, F-Limer test was used. Then, in order to determine and choose one of the two fixed effects models or random effects, Hausman test was used the results of which are presented in the table below.

Table (4): F-Limer and Hausman test results

dependent variable	independent variable	F-Limer test probability	Hausman test probability	Cross-sections
Growth of company	Restatement of financial statements	0.001	0.001	Fixed effects

According to-Limer and Hausman test results presented in Table 5, panel model with specified effects are used. In the following, hypotheses are tested using panel data model.

The first hypothesis:

- ✓ **Restatement of financial statements has an influence on the growth of company.**

Table (5): Results of testing the first hypothesis

independent variable	coefficients	T statistics	probability
RESTATEMENT	-0.162	-1.98	0.038
ROA	.0.034	10.685	0.001
LOGTA	0.097-	5.873	0.001
c			
R-squared	0.28	Durbin-Watson stat	1.871
Adjusted R-squared	0.27	Prob(F-statistic)	0.001
F-statistic	43.85		

According to the table and test results using panel data, it can be concluded that there is a significant relationship between restatement of financial statements and the company's growth based on t probability statistics.

The results of F statistics also indicates that the model is generally significant and according to Durbin-Watson statistics it no problem with autocorrelation. In addition, the results of the adjusted coefficient show that in the whole period of study about 28% of changes in the dependant variable (Tobin's Q ratio) that indicates the growth of companies result from the independent and control variable that indicates the ability to obtain incomes and adequate returns of investors is used assess the company's financial health and effective management. Moreover, giving the t statistics the independent variable (restatement of financial statements), which is negative, represents an inverse relationship between restatement of financial statements and growth of companies, indicating the more the restatement of financial statements increases, the less the growth of companies increases.

The second hypothesis:
There is a significant relationship between the growth of companies that have restatement of financial statements and the growth of companies that have no restatement of financial statements.
To test the above hypothesis regarding the non-normality of data, nonparametric statistics (Wilcoxon test) was used and the following results were obtained.

Table (4): Results of Wilcoxon test

Wilcoxon Signed Ranks Test

Ranking sum	number	Mean rank	Growth - restatement
Negative ranks	355[a]	218.97	77734.00
Positive ranks	45[b]	54.80	2466.00
similar	0[c]		
total	400		

a. restatment < qtobin
b. restatment > qtobin
c. restatment = qtobin

Statistical test

	Growth-restatement
Z	-16.266[a]
Asymp. Sig. (2-tailed)	0.001

a. Based on negative ranks.
b. Wilcoxon Signed Ranks Test

According to the above table, it can be concluded that the null hypothesis is rejected at error level of 0.05 and confidence level of 0.95, showing equal means, is rejected and that the mean growth of companies had a significant difference before and after the restatement of financial statements. According to Z statistic and that this statistic is negative, which represents an inverse relationship between restatement of financial statements and the growth of companies, the growth of companies that have restatement of financial statements is different from the companies that provide no restatement and the companies that have restatement of financial statements have less growth.
It is noteworthy that it was not possible to test due to the central limit and non-normal data because the hypothesis aimed to compare the means. Therefore, the Wilcoxon test was conducted because it is nonparametric and that nonparametric methods are specific to non-normal samples. In order to ensure the above results Wald-Wolfowitz test was also conducted the results of which is presented in the appendix confirming the results of the above test.

RESULTS AND DISCUSSION

This study examined the relationship between the restatement of financial statements and the growth of exchange companies. Therefore, this research aimed to develop a comprehensive framework and model to use for assessment and analysis of restatement in relation to the companies. The present test was designed and implemented as ANOVA to determine the influence of restatement on the growth of companies. This study attempted to answer two main questions:

1. There is a significant correlation between the restatement of financial statements and the growth of companies.

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2. There is a significant correlation among the companies that provide restatement of financial statements compared to the companies that provide no restatement.

Therefore, after analyzing the data and results in relation to the first question, it can be concluded that the result indicates the influence of restatement of financial statements on the growth of companies. This could be unpleasant news for investors. They need to consider the fact that restatement of financial statements as a warning for reducing the growth has led to increased expected rate of return that ultimately leads to higher cost of capital. According to the second hypothesis results that show companies that restate financial statements have less grow than companies that do not restate financial statements, investors and creditors should consider this fact because companies that restate financial statements have higher risk than companies that do not restate financial statements. The study findings suggest that market participants, both public and private sectors, should pay further attention to the restatement of financial statements in their decision-making process.

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