International Journal of Management, Accounting and Economics
Vol. 2, No. 4, April, 2015
ISSN 2383-2126 (Online)

www.ijmae.com

A Model for Evaluating the Impacts of Qualitative Characteristics on the Usefulness of Financial Reporting

Halimeh Rahmani[1]
Department of Accounting, Zahedan Branch, Islamic Azad University, Zahedan, Iran

Hosein Jabari
Department of Accounting, Kashan Branch, Islamic Azad University, Kashan, Iran

Abstract

The objective of accounting is to provide useful information for the users of financial reporting. The information is considered useful if it possess qualitative characteristics. In this regard, it is very important to examine the relationship between qualitative characteristics and usefulness of information. However, a literature review doesn't contribute much to judge about the relationship between qualitative characteristics and the usefulness of financial reporting. This study aims to investigate the effects of qualitative characteristics on the usefulness of financial reporting. In this study, we have used structural equations model (SEM) to analyze the data. The PLS, LISREL and SPSS software were used to test the model, research validity and research reliability, respectively. The information of the study sample consisting of 185 firms was analyzed during the period 2000 to 2013. Except for understandability, all other qualitative characteristics had an impact on usefulness. Conservatism also had negative effect on usefulness. Based on the findings, it is recommended to omit conservatism from qualitative characteristics. Besides, considering that relevance has a greater impact on the usefulness than reliability, so it can be concluded that the users of financial statements are looking for relevant information in their decision making process and information reliability is a matter of secondary importance.

Keywords: Attitude, intention, emotion, sponsorship.

Cite this article: Rahmani, H., & Jabari, H. (2015). A Model for Evaluating the Impacts of Qualitative Characteristics on the Usefulness of Financial Reporting. *International Journal of Management, Accounting and Economics, 2*(4), 293-311.

[1] *Corresponding author's email: halimeh.rahmani@gmail.com*

Introduction

According to the conceptual framework of financial reporting (paragraph 1.1), the purpose of financial reporting is to provide summarized and classified information about the financial position, performance and flexibility of an entity that is useful to a wide range of users of financial statements in making economic decisions. Providing useful information is important because they can influence the economic decisions of several groups (paragraph 5.1 of conceptual framework).

According to the conceptual framework of financial reporting, information is useful if it possess certain qualitative characteristics including relevance, reliability, comparability, and understandability. In this regard, it is very important to identify the relationship between usefulness and qualitative characteristics. While identifying the effectiveness of these characteristics on the usefulness of financial reporting, we can take measures to enhance the usefulness by obliging entities (whether through setting standards or rules and regulations) to improve characteristics which are more effective, eliminate the characteristics which do not affect the usefulness or else have a negative effect. Besides, by identifying the effectiveness of these characteristics on the usefulness of financial reporting, one can provide a model to measure the usefulness of entities using qualitative characteristics. However, no research has been conducted to show that whether the observance of qualitative characteristics leads to the usefulness of information, how effective are these characteristics on usefulness, and which of these characteristics have a greater or lesser impact on usefulness.

The Usefulness of Financial Reporting

Theoretically, the usefulness of information means that this information steers the investors towards reconsidering their beliefs and actions (Scott, 2003). There have been practically different definitions of usefulness presented. For instance Kam (1990), Francis and Schipper (1999) have presented a classification of usefulness definitions. Kam (1990) introduced three methods for determining the usefulness of information, one of which is investigation on the relationship between stock prices and the information of financial reporting; in particular, profit. Kam argues that, to be useful, a certain item should be able to influence the investors' beliefs about stock prices. In this case, there is a statistical relationship between the item and the stock price. Francis and Schipper (1999) have also presented four perspectives. The fourth perspective of which is the latest and the most applicable approach concludes that if there is a significant relationship between one or more accounting items and market factors, they are considered useful. This approach has been used in this study to evaluate the usefulness; it is in accordance with the third view which has been introduced by Kam (1990).

Qualitative Characteristics of Financial Reporting

Qualitative Characteristics refers to the attributes which cause the information provided for users of financial statement be useful and in line with the evaluation of the financial position, performance and flexibility of the entity. Therefore, the main objective of qualitative characteristics of financial information is to provide information useful to users. Some qualitative characteristics are concerned with the content of

information contained in financial statements, and some others on how this information is presented.

According to the conceptual framework of financial reporting, the qualitative characteristics associated with the contents of information include relevance and reliability. The information provided by financial reporting should be relevant, and for this purpose they have to be associated with a relevant economic phenomenon; meaning that the information about the phenomenon should be able to make a difference in a decision. To have this ability, the information should possess the predict value, feedback value, and the attribute selection. The information provided in financial statements needs to be reliable; for this purpose it should possess certain characteristics including faithful representation, neutrality, completeness and conservatism.

Qualitative characteristics associated with the representation of information include comparability and understandability. Comparability is a qualitative characteristic that enables users to identify similarities and differences between two set of economic phenomena. Understandability means that users can easily understand the information within the context of financial statements. Financial information is understandable if the items are integrated and classified properly.

Literature review

The results of the studies performed about the relationship between qualitative characteristics and the usefulness of financial reporting are briefly presented in table 1.

Table 1- The results of the studies performed about the relationship between qualitative characteristics and the usefulness of financial reporting

Researcher	Independent Variable(s)	Method of Hypothesis Testing	Time Period	Results
Barua	Reliability Relevance	• Regression • Factor Analysis	1988-2003	• Reliability and relevance have impact on usefulness • Priority of relevance on reliability
Ahmadi	Reliability Relevance	• Regression • Cluster Analysis	1997-2006	• Reliability and relevance have impact on usefulness
Shourvarzi	Reliability Relevance	• Regression • Factor Analysis	2001-2007	• Reliability and relevance have not impact on usefulness

Researcher	Independent Variable(s)	Method of Hypothesis Testing	Time Period	Results
				• Priority of reliability on relevance
Dastgir et al	Reliability Relevance	• Regression • Factor Analysis	1995-2007	• Reliability and relevance have impact on usefulness • There is not any Priority of relevance on reliability
Ahmadput et al	Reliability	• Regression • Factor Analysis	1999-2008	• Reliability has impact on usefulness
Novravesh et al	Reliability	• Regression	2004-2008	• Reliability has not impact on usefulness
Shqafi	Reliability	• Regression	2002-2009	• Reliability has impact on usefulness
Collins et al	Conservatism	• Regression	1953-1993	• Conservatism has impact on usefulness
Penman and Zhang	Conservatism	• Regression	1975-1997	• Conservatism has impact on usefulness
Balachandran and Mohanram	Conservatism	• Regression • Trend Analysis	1978-2002	• Conservatism has impact on usefulness
Brown et al	Conservatism	• Regression	1993-2004	• Conservatism has impact on usefulness
Wendt	Conservatism	• Regression	1995-2007	• Conservatism has not impact on usefulness
Saqafi and Sadidi	Conservatism	• Regression	1994-2006	• Conservatism has

Researcher	Independent Variable(s)	Method of Hypothesis Testing	Time Period	Results
				impact on usefulness
Mashayekhi et al	Conservatism	• Regression	2001-2007	• Conservatism has not impact on usefulness
Rahmani et al	Conservatism	• Regression	2002-2010	• Conservatism has impact on usefulness

As shown in table 1, conducted researches have focused mainly on one or a few qualitative characteristic(s) and have not considered all qualitative characteristics concurrently, the consequence of which has mostly been inconsistent results. For instance, the results of studies conducted by Barua (2006), Ahmadi (2008), Dastgir et al (2010) indicate relationship between relevance and reliability and usefulness. The findings of Shourvarzi (2009), however, demonstrate that relevance and reliability have no relationship with usefulness.

Moreover, the implications of the studies conducted by Ahmadpour and Ghahremani (2010) and Saqafi (2011) show that there is a significant relationship between reliability and usefulness, whereas the research by Noravesh and Hosseini (2010), which addresse the same issue, is indicative of an absence of such relationship.

As another example, one can refer to the results of researches conducted by Penman and Zhang (2002), Balachandran and Mohanram (2010), Brown et al (1999), Rahmani et al (2013), and Saqafi and Sadidi (2008), which indicate that there is a significant relationship between conservativeness and usefulness of financial reporting, whereas Mashayekhi et al (2010) and Wendt (2010)'s works do not verify such relationship.

Therefore, it can be seen that various studies have given inconsistent results. The variables considered by researchers in above-mentioned studies on financial reporting usefulness have focused partially on one or more particular qualitative characteristic(s). It seems that such superficial view has led to such inconsistent results. Moreover, based on conceptual framework, in order to achieve the common goal of providing useful information, every qualitative characteristic has its own special stance and role, the presence or absence of one or more of which would hinder achieving such goal. Therefore, if the effect of one or more of such characteristic(s) on usefulness is/are examined statistically, the results cannot represent the reality. Consequently, for analyzing usefulness of financial reporting, all, rather than one or more, qualitative characteristics should be considered concurrently. Therefore, the simultaneous effect of all qualitative characteristics on financial reporting usefulness is examined in this study. Hence, if there is a comprehensive and complete criterion for evaluating the effect of qualitative characteristics on financial reporting usefulness able to obviate such superficiality, the mentioned inconsistency of results will be removed. Using a set of

qualitative characteristics of financial reporting can be useful for this goal (Jonas and Blanchet, 2000 and Beast et al, 2009).

Research Hypotheses

H_1: Control variables have impact on the relationship between qualitative characteristics and usefulness.

H_2: Financial reporting limitations have impact on the relationship between qualitative characteristics and usefulness.

H_3: Qualitative characteristics have impact on usefulness.

$H_{3/1}$: Relevance has impact on usefulness.

$H_{3/2}$: Predictive value has impact on usefulness.

$H_{3/3}$: Feedback value has impact on usefulness.

$H_{3/4}$: Attribute selection has impact on usefulness.

$H_{3/5}$: Reliability has impact on usefulness.

$H_{3/6}$: Faithful representation and neutrality have impact on usefulness.

$H_{3/7}$: Conservatism has impact on usefulness.

$H_{3/8}$: Completeness has impact on usefulness.

$H_{3/9}$: Comparability has impact on usefulness.

$H_{3/10}$: Understandability has impact on usefulness.

H_4: Qualitative characteristics related to content of information has more effect on the usefulness rather than qualitative characteristics related to representation of information.

H_5: Relevance has more effect on the usefulness rather than reliability.

H_6: Predictive value has more effect on the usefulness rather than feedback value.

Research Methodology

This research is a quasi- experimental study and is categorized in the field of descriptive (non-experimental) studies. This research was performed in correlational method based on structural equations model according to which the researcher considered to examine the structural relations on the basis of existing theories and research findings.

Measurement of Variables

Usefulness of Financial Reporting

In this study, the Ohlson's model (1995) has been used to measure the usefulness of financial reporting. The model provided by Ohlson (1995) includes:

$$MV_{it} = \beta_{0t} + \beta_{1t} BV_{it} + \beta_{2t} E_{it} + \varepsilon_{it} \quad (1)$$

where MV_{it} is the market value of firm i in year t in the fiscal year end, BV_{it} is the book value of equity per share of firm i at year end t, and E_{it} is the earnings in firm i at year end t.

Predictive Value and Feedback Value

To measure the predictive value and feedback value, it has been used four models where future earnings and cash flows are regressed on current earnings as well as on components of current earnings.

Future Earnings on Current Earnings

$$ROA_{t+1} = \lambda_0 + \lambda_1 ROA_t + e_t \quad (2)$$

Where,

ROA: Earnings before extraordinary items and discontinued operations scaled by average total assets.

e_t: error term

Future Earnings on Components of Current Earnings

$$E_{t+1} = \delta_0 + \delta_1 OCF_t + \delta_2 TAC_t + \delta 3SI_t + e_t \quad (3)$$

Where,

OCF_t: Operating cash flow of firm i for year t (Et-TAC).

TAC_t: Total accruals of firm i for year t.

SI_t: Special items of firm i for year t.

All variables are scaled by average total assets.

Future Cash Flows on Current Earnings

$$OCF_{t+1} = \alpha_0 + \alpha_1 E_t + \omega_t \quad (4)$$

Both OCF_{t+1} and E_t are deflated by average total assets for year t.

Future cash flows on components of current earnings

$$OCF_{t+1} = \pi_0 + \pi_1 OCF_t + \pi_2 TAC_t + \pi_3 SI_t + \omega_t \quad (5)$$

All variables are as described in equation (3) and are scaled by average total assets.

I estimate equation (2)–(5) over rolling 10-year windows for each firm-year observation.

Feedback value of earnings is estimated by measuring the ability of current year's earnings to change the predictions about next year's earnings. The feedback value is measured by the difference between absolute prediction errors for the next year before

and after considering current year's earnings.

$$FV_t = [|PEB| - |PEA|] \quad (6)$$

Where,

FV_t: Feedback value of earnings for year t

PEB: Prediction error of next years earnings without considering current earnings

PEA: Prediction error of next years earnings after considering current earnings

If the absolute prediction error after considering current earnings is smaller than the absolute prediction error before considering current earnings, then this provides evidence of positive feedback value. However, to be consistent with other inverse measures, I use

the negative value of FV_t as the inverse measure of feedback value.

Attribute Selection

In this study, the number of cases reported by the auditor on the non-observance of attribute selection is considered as a reversed attribute selection observance criterion.

Faithful Representation and Neutrality

Earnings management results in non-performance of earnings figure in the financial statements in a fair and neutral manner. Therefore, earnings management can be mentioned as a reverse criterion of faithful representation and neutrality. The stubben model (2010) is used for this purpose:

$$\begin{aligned}\Delta AR_{it} = {} & \alpha + \beta_1 \Delta R_{it} + \beta_2 \Delta R_{it} \times SIZE_{it} + \beta_3 \Delta R_{it} \times AGE_{it} \\ & + \beta_4 \Delta R_{it} \times AGE\_SQ_{it} + \beta_5 \Delta R_{it} \times GRR\_P_{it} + \beta_6 \Delta R_{it} \times GRR\_N_{it} \\ & + \beta_7 \Delta R_{it} \times GRM_{it} + \beta_8 \Delta R_{it} \times GRM\_SQ_{it} + \varepsilon_{it},\end{aligned} \quad (7)$$

where:

AR: end of fiscal year accounts receivable;

R: annual revenues;

SIZE: natural log of total assets at end of fiscal year;

AGE: age of firm (years);

GRR P: industry-median-adjusted revenue growth (0 if negative);

GRR N: industry-median-adjusted revenue growth (0 if positive);

GRM: industry-median-adjusted gross margin at end of fiscal year;

SQ: square of variable; and

Δ: annual change.

We define our firm i – firm j correlation measure of comparability (CompAcct-R^2) as the adjusted R^2 from this regression.

Conservatism

In order to measure the conservatism, default-adjusted-Basu model (2009) is used. This model is developed by Wang (2009), as below:

$$\frac{NIBI_{it}}{V_{it-1}} = a_0 + a_1 DTR_{it} + b_0 TR_{it} + b_1 TR_{it} DTR_{it} + \varepsilon_{it} \quad (8)$$

where

$NIBI_{it}$: Net Income before Interest Expense, calculated as Net Income After Tax + Pre-tax Interest Expense.

Vi_{t-1}: The total value of the firm, as defined earlier when introducing the Merton (1974) model. It is the sum of the market values of equity and debt of the firm.

TR_{it}: The rate of return of the total value of the firm, V, calculated as: $TR_{it} = (V_{it} - V_{it-1} - CFF_{it})/V_{it-1}$. CFF_{it} is the net cashflow from financing activities for firm i in year t. CFF_{it} is positive for net cash inflow financing activities.

DTR_{it}: A dummy variable that is set to 1, if $TR_{it}<0$; and is set to 0, if $TR_{it}\geq 0$.

b_1: is DAB measure of accounting conservatism.

Completeness

To measure the completeness of companies' information, the criterion non-disclosure information reported by the auditor and the inspector (legal) is used as a reverse criterion.

Comparability

To measure the comparability, the following regression developed by De Franco et al (2008 and 2011) is used:

$$CompAcct_{ijt} = -1/16 * \sum_{t-15}^{t} | E(Earnings_{iit}) - E(Earnings_{ijt}) | \quad \textbf{(9)}$$

$E(Earnings)_{iit}$ is the predicted earnings of firm i given firm i's function and firm i's return in period t; and, $E(Earnings)_{ijt}$ is the predicted earnings of firm j given firm j's function and firm i's return in period t.

Greater values indicate greater accounting comparability.

Understandability

In this study the criterion page number of financial statements is applied to operationalize the qualitative characteristic of understandability. Therefore, the natural log for the number of financial statements pages is used as an inverse measure of understandability.

Balance between Qualitative Characteristics

If there is not a statistically significant difference in the amount of standard qualitative characteristics which are inversely related to each other, it means that there is a balance between qualitative characteristics, otherwise, there is no balance between these characteristics.

Timeliness

The more the gap between the date of financial statements (end of fiscal year) and the date of General Assembly is greater, the later the users will access the information, and vice versa.

Cost-Benefit Considerations

If the figures reported in financial statements are less than the material level, this could indicate the lack of attention to the cost-benefit constraints. An inverse measure indicator is the outcome of compliance with this constraint.

Community and the Statistical Sample

The sample of this study includes all companies listed in the Tehran Stock Exchange.

Considering the research requirements, 201 companies were selected as samples, of which the information was gathered from 2000 to 2013. However, after the effects of control variables and the constraints governing financial reporting were examined, the sample decreased to 185 companies; so that, 16 companies didn't have timely financial reporting and 6 companies were also incurring losses on average during the study period. Since the research model was not significant regarding the companies with untimely financial reporting and the losing ones, so they were excluded from the final sample of the study.

Data Analysis

In this research, the structural equations model has been used for data analysis. The PLS, LISREL and SPSS software were used to test the model, research validity and research reliability, respectively.

Reliability and Validity of Research

A test-retest was applied using SPSS software to evaluate the research reliability. So that, the research data during the period 2000 to 2013 was divided into two periods of 7 years (2000 to 2006 and 2007 to 2013). The model test was then carried out on both of these periods. The results of the test are presented in table 2.

Table 2- The results of the reliability test

Correlations			
		2000-2006	2007-20013
2000-2006	Pearson correlation	1	.803**
	Sig. (2 –tailed)		.000
	N	185	185
2007-20013	Pearson correlation	.803**	1
	Sig. (2 –tailed)	.000	
	N	185	185
**.	Correlation is significant at the 0.01 level		

The Pearson correlation coefficient between the results of these two groups is .803, which signifies the reliability of this research.

The construct or factor validity has been used to assess research validity. It was calculated by confirmatory factor analysis using Lisrel software. The results of the confirmatory factor analysis, according to the T-statistic which in all coefficients of the studied markers and latent adjectives is higher than 1/96, show that the markers used for the measurement of the latent adjectives are compatible with the construct factor and theoretical foundation.

International Journal of Management, Accounting and Economics
Vol. 2, No. 4, April, 2015
ISSN 2383-2126 (Online)

www.ijmae.com

Research Findings

Based on the hypothesis test using PLS software, the basic model of the test is as follows:

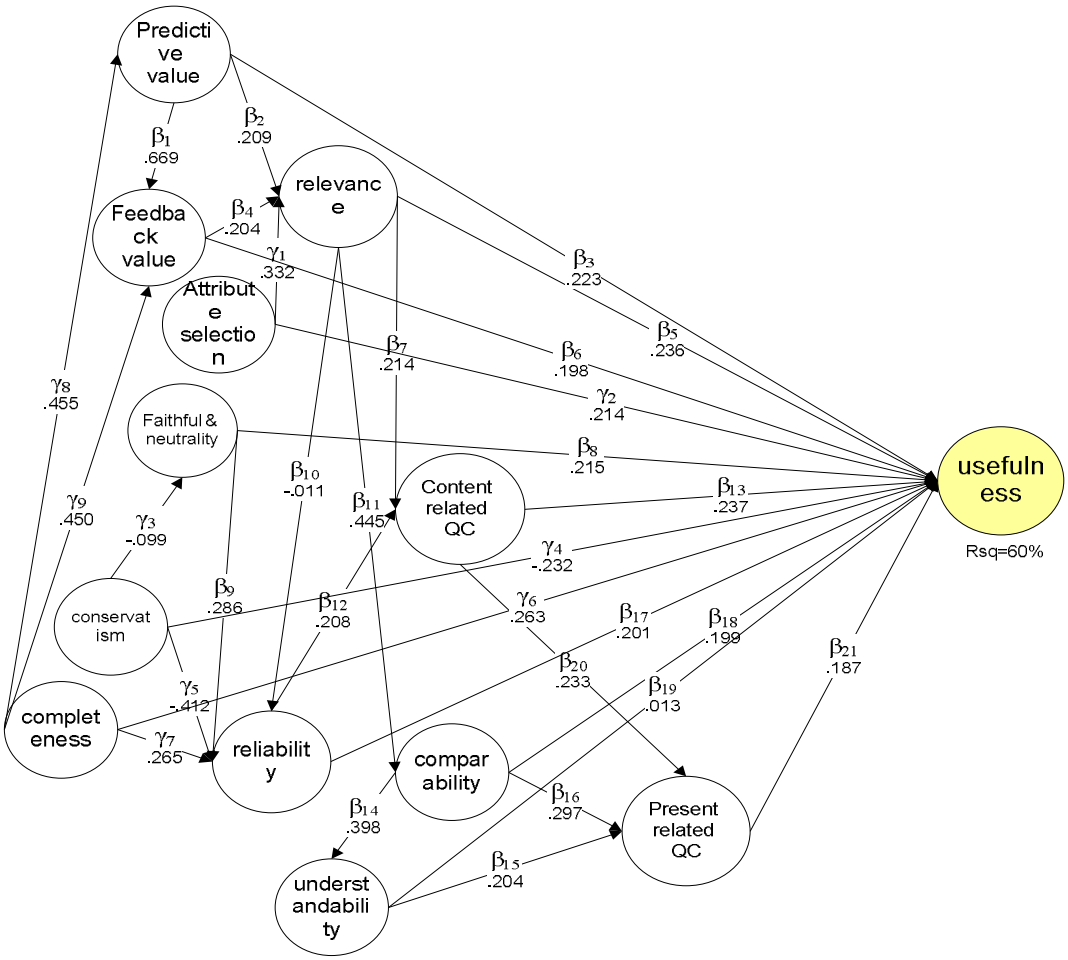

Figure 1- Basic Model

There are three latent independent variables (including attribute selection, conservatism, and completeness) and ten latent dependent variables (including predictive value, feedback value, faithful representation and neutrality, relevance, reliability, understandability, comparability, qualitative characteristics relating to content, qualitative characteristics relating to presentation, and usefulness) in this model. Some latent variables directly and some others directly and indirectly affect the usefulness or each other. Direct and general effects of each of the latent variables on the usefulness of financial reporting along with fitting indicators which include R^2 and Q^2 are shown in table 3.

According to the R^2 value, 60% of the usefulness variations can be explained and predicted by qualitative characteristics. Given that the amount off this index is more than 0/5, therefore, it can be concluded that based on this index, the model possesses a

desirable propriety. Considering the Q^2 value, the research independent variables have been well able to reveal their share in the independent variable (usefulness). In other words, these indicators can help to determine the relationships for the estimation of the dependent variable (usefulness). Whereas the amount of Q^2 is equal to 0/72 that's more than 0/5, it can be concluded that the model is desirably fitted.

Table 3- Standard path coefficients of direct and general effects of variables on the usefulness

Path	Direct Effect	Total Effect	R^2	Q^2
Predictive value → Usefulness	.223	.490	0.60	0.72
Feedback value → Usefulness	.198	.277		
Attribute selection → Usefulness	.214	.342		
Faithful representation & neutrality → Usefulness	.215	.289		
Conservatism → Usefulness	-.232	-.260		
Completeness → Usefulness	.263	.596		
Relevance → Usefulness	.236	.390		
Reliability → Usefulness	.201	.259		
Comparability → Usefulness	.199	.274		
Understandability → Usefulness	.013	.051		
Content related qualitative characteristics → Usefulness	.237	.280		
Presentation related qualitative characteristics → Usefulness	.187	.187		

The data in table 3 show that the overall strength of the relationship between the latent variables in the model is statistically significant and the model is structurally accepted. According to the model analysis and the information about fitness and path coefficient, the path between understandability and usefulness is not statistically significant and its' omission could be the most economical solution. The sign of path coefficient between conservatism and other variables is negative which indicates the negative effect of this variable on other variables including usefulness. Therefore, the omission of this variable can help to improve the fitness indicators. The final research model will be as shown in figure 2:

International Journal of Management, Accounting and Economics
Vol. 2, No. 4, April, 2015
ISSN 2383-2126 (Online)

www.ijmae.com

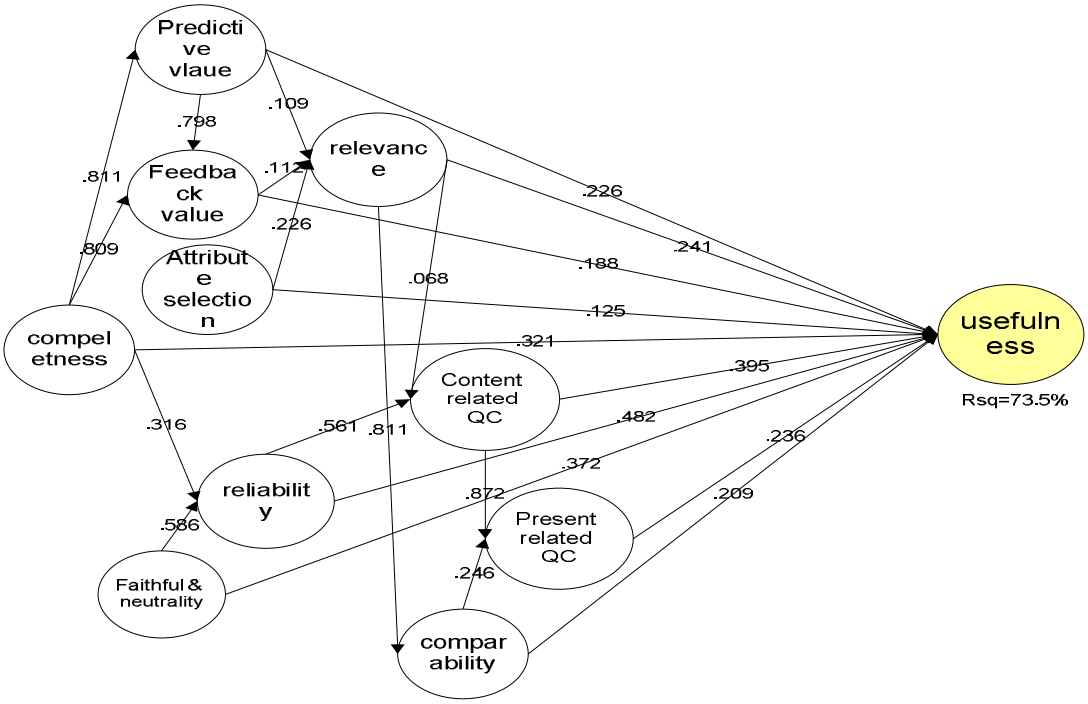

Figure 2- Final Model

The research structural model, after removing the latent variable has a negative effect on usefulness (conservatism) and the latent variable without having a significant relationship with usefulness (understandability) is as above. To examine whether the final model is better fit or not, the results of the fitness indicators and path coefficient are shown in table 4:

Table 4- Standard path coefficients of direct and general effects of variables on the usefulness

Path	Direct Effect	Total Effect	R^2	Q^2
Predictive value → Usefulness	.226	.474	0.73.5	0.81
Feedback value → Usefulness	.188	.280		
Attribute selection → Usefulness	.125	.237		
Faithful representation & neutrality → Usefulness	.372	.851		
Completeness → Usefulness	.321	.998		
Relevance → Usefulness	.241	.498		
Reliability → Usefulness	.482	.819		
Comparability → Usefulness	.209	.267		
Content related qualitative characteristics → Usefulness	.395	.600		
Presentation related qualitative characteristics → Usefulness	.236	.236		

It is visible that in general, most of the path coefficients of the variables (including feedback value, faithful representation and neutrality, completeness, relevance, reliability, content related qualitative characteristics and presentation related qualitative characteristics) are increased. Even the path coefficient of presentation related

qualitative characteristics which was less than 0/2 and equal to 0/187 in the basic model of the research, has increased to 0/236. This indicates that the omission of the two variables conservatism and understandability has strengthened the relationship between the latent variables.

R^2 value shows that the index has been increased from 60% in the previous model to 73/5% in the final model; meaning that in accordance with the overall value, the predictability of dependent variable has been increased by independent variables. The Q^2 value has also been increased from 0/72 in the previous model to 0/81 in the final model. This increase indicates that omitting the two variables, conservatism and understandability, has led to the increasing of overall fitness model (appropriate relationships between latent variables and the dependent variable). The fitness indices value indicates that the model is justified in the community and is preferred to the original one, not to mention being more economical.

On this basis, except for the H_2 and the $H_{3/10}$, the rest were confirmed. Regarding the timeliness and cost-benefit considerations, H_2 is confirmed but the results on the balance between qualitative characteristics are not specified and will remain ambiguous, because it has been observed in all sample entities.

Conclusions and Recommendations

In conceptual framework it has been claimed that qualitative characteristics lead to the usefulness of financial reporting. On this basis, there is expected to be a significant and meaningful relationship between qualitative characteristics (in general and detailed) and the usefulness of financial reporting. However, the results show that the claim on the qualitative characteristics of conservatism ($H_{3/7}$) and understandability ($H_{3/10}$) is not confirmed, yet it has been approved regarding the other qualitative characteristics.

According to the results of the overall model, the overall effect of complete on usefulness has been more than other variables. Therefore, it can be inferred that to provide and disclose the necessary information for users is very important. This is why financial statements have to be prepared with sufficient accuracy.

Based on the findings, the path coefficient of the effectiveness of relevance on usefulness is more than other qualitative characteristics. This indicates that relevant reports are more preferred by users than the reliable ones.

The earnings management in this research is used as a reverse criterion for faithful representation and neutrality. In other words, whatever more the earnings management is in companies, it means that the relevant information have enjoyed a lesser faithful representation and neutrality. According to the findings, faithful representation and neutrality had a significant effect on usefulness (H_6). These evidences are signifying the fact that if the information is not represented honestly or has been manipulated for a certain purpose, the users will understand the issue and will consider it in their decisions. Therefore, earnings management discussion has to be controlled more seriously. Meaning that, the standards and requirements have to be formulated in a manner that to provide the minimal opportunity for earnings management.

Although based on the conceptual framework of financial reporting conservatism increases usefulness, according to the researchers' opinion and based on the results of previous studies, it is not yet clear whether conservatism increases or decreases the usefulness. If conservatism leads to the omission of useful information from financial reports, this will decrease the usefulness. But if conservatism prevents financial reports being provided by unreliable information, it will increase the usefulness. Therefore, conservatism has an ambiguous effect on usefulness. Theoretically, there are two contrasting views about the effectiveness of conservatism on the usefulness of financial reporting.

Based on the evidences obtained from the present study, the usefulness of financial reporting is statistically influenced by conservatism. This is the result of the investigations of Collins et al. (1997), Penman and Zhang (2002), Balachandran and Mohanram (2010), Brown et al (1999), Rahmani et al (2013), and Saqafi and Sadidi (2008). In their studies, the researchers examined the accuracy of the claim. Moreover, based on the first viewpoint about the effectiveness of conservationism on the usefulness, conservatism decreases the usefulness because it brings about the omission of most useful information related to the assets such as research and development.

The results of the study showed that this could be true. On the other hand, according to the second viewpoint on the effectiveness of conservationism on the usefulness, it could be mentioned that conservatism increases the usefulness, because it brings about the increasing of reliability and the ability to handle information. Based on the results of this study, this could not be true. It seems that the users of financial reporting information don't pay much attention to the conservational information in their decisions. It is inferred that in the conceptual framework of Iran also like the international conceptual framework and FASB, some adjustments should be undertaken and conservatism should be omitted from qualitative characteristics. The inherent limitations of this study should also be taken into consideration and then reach to a conclusion. On the other words, it is recommended to examine the issue more carefully.

There are disagreements between theoretical foundations and the empirical evidences relating to the effectiveness of relevance and reliability on the usefulness. In the conceptual framework of FASB it is stated that the degrees of reliability and relevance can be changed and one can't put a special blend between relevance and reliability for the sake of the usefulness of information. However, a characteristic in general can't be ignored for the sake of another characteristic. In the conceptual framework of Iran, it has only referred to creating a balance between qualitative characteristics, and none of these characteristics are preferred to the others. The information is useful, that possess both of the characteristics simultaneously. But many empirical evidences show that the relevance qualitative characteristic is more effective on the usefulness than reliability (e.g. Barua, 2006; Dastgir et al. 2009; Hejazi and Rahmani, 2007). Barua (2006) claims that since the qualitative characteristic of relevance is connected to market values, therefore, from the perspective of the effectiveness on usefulness, this characteristic should be more important than the qualitative characteristic reliability. The results of his study also proved the accuracy of the claim. The results of this research also show that the effectiveness of relevance on the usefulness of financial reporting is more than the effectiveness of reliability on the usefulness of financial reporting. To account for the

issue, besides referring to the reasoning of Barua (2006), it is also important that to provide reliable information, there is more emphasis on historical data conservatism.

Based on the results of $H_{3/7}$, there is a negative relationship between conservatism and the usefulness of financial reporting. The reliable information which has been provided conservatively is less considered by users and decision makers; therefore, it has less effect on the usefulness. As a result, the standard developers and regulatory bodies are recommended to take measures to eliminate the conservative requirements.

References

Ahmadi, Ahmad (2008), Using the Financial Information's Qualitative Characteristics for Evaluating Earning Quality, the Iranian Accounting and Auditing Review, Vol. 15, No 52, Pp3-16.

Ahmadpour, Ahmad, and Hosna Ghahramani (2010). Study of Accounting Information's Reliability Qualitative Characteristic In Earning Quality Measures Of Companies, The Iranian Accounting and Auditing Review, 58.

Balachandran, Sudhakar V. And Partha S. Mohanram. (2005). Conservatism and the Value Relevance of Accounting Information, Avalable at Http://Www.Krannert.Purdue.Edu.

Barua, Abhijit. (2006). Using the Fasb's Qualitative Characteristics in Earnings Quality Measures, A Doctoral Dissertation, Faculty of the Louisiana State University.

Beest, F. V., Braam, G., And Boelens, S. (2009). Quality of Financial Reporting: Measuring Qualitative Characteristics, Nijmegen Center for Economics (Nice), Institute for Management Research, Radboud University Nijmegen.

Brown, W., H. He and K. Teitel. (2006). Conditional Conservatism and the Value Relevance of Accounting Earnings: An International Study, European Accounting Review, 15, 4, 605-626.

Collins, D. W., Maydew, E. L., & Weiss, I. S. (1997). Changes in the Value-Relevance of Earnings and Book Values over the Past Forty Years. Journal of Accounting & Economics, ٢٤(1), 39.

Dastgir M.,Karimi Farzad,Moradi Amin (2009). Effects of Qualitative Characteristics Related To the Information Content on Earnings Quality, Financial Accounting; 1(1):38-59.

Defranco, G., Kothari, S., Verdi, R. (2008). The Value of Earnings Comparability, Working Paper, Mit Sloan School of Management.

Defranco, G., Kothari, S., Verdi, R. (2011). The Benefits Of Financial Statement Comparability, Journal Of Accounting Research, Volume 49, Issue 4, Pages 895–931.

Financial Accounting Standards Board (Fasb), (2008). Concept 2: Qualitative Characteristics of Financial Reporting.

Francis, J., Schipper, K. (1999). Have financial Statements Lost Their Relevance? Journal of Accounting Research 37, 319–352.

Hejazi, Rezvan, and Halimeh, Rahmani (2007). An Investigation Of The Reasons For The Unwillingness Of Investment Companies Listed In The Stock Exchange Market Of Tehran In Using Fair Market Values For Pricing Current Investments, Journal Of Social Sciences And Humanities Of Shiraz University; 26(1 (50));57-74.

International Accounting Standards Board (Iasb) (2008). Qualitative Characteristics of Financial Reporting.

Iranian Standard Setting Committee (1999). Conceptual Framework. Audit Organisation. Tehran.

Jonas, G. & Blanchet, J. (2000). Assessing Quality of Financial Reporting. Accounting Horizons, 14(3), 353-363.

Kam, V. (1990). Accounting Theory (Second Edition). New York: Wiley.

Mashayekhi, B., Mohammadi M., and Hearzadeh, R. (2010), Accounting Conservatism, Earnings Persistence and Earnings Distribution, the Iranian Accounting and Auditing Review, 56.

Novravesh, I., and Hosseini, A. (2010). Corporate Disclosure Quality (Consist Of Timeliness And Reliability) And Earnings Managemen, The Iranian Accounting And Auditing Review, 55.

Ohlson, J. (1995). Earnings, Book Values and Dividends in Equity Valuation. Contemporary Accounting Research 11: 661-687.

Penman, S.H. And X. Zhang. (2002). Accounting Conservatism, the Quality of Earnings, And Stock Returns, the Accounting Review, 77(2): 237-264.

Rahmani, A., Asnaashari, H. & Valizadeh Larijani, A. (2011). Conservatism and Content of Financial Statements Figures, Accounting and Audition Studies, 64 .

Saqafi Ali (2011). Reliability and Earnings Quality – Financial Position Approach, Accounting Research, 16.

Saqafi Ali and Mahdi Sadidi (2008). The Effects of Accounting Conservatism on Earning Quality, Empirical Research in Financial Accounting, 18.

Scott, W. R. (2003). Financial Accounting Theory, 3th Edition, Prentice – Hal, Inc.

Stubben, S. R. (2010). Discretionary Revenues as a Measure of Earnings Management. Accounting Review 85(2): 695-717.

Wang, Zhe (Richard). (2009). Accounting Conservatism, Doctoral Thesis, Victoria University of Wellington.

Wendt, M. J. H. (2010). The Effect of Accounting Conservatism on Value Relevance of Financial Statements. Master's Thesis in Accounting, Auditing and Control, Erasmus University Rotterdam, Department Of Business Economics.