Journal of
Empirical Research In Accounting

Alzahra University, Faculty of Social Sciences and Economics
Empirical Research in Accounting, Winter 2024, V. 14, No. 54, pp.11-14

The Effect of Life Cycle on Financial Statement Comparability by Consideration Moderating Role of the Information Asymmetric[1]

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Received: 2024/05/19
Accepted: 2024/09/11

Research Paper

INTRODUCTION

Based on the conceptual framework of the Accounting Standards Board (2010), comparability contributes to the decision usefulness of accounting information for users. Also, based on the same statement, information will be more useful for investors when it has the advantage of comparability. In stock markets, investors need to evaluate alternative opportunities. This comparison would be difficult without comparable financial statements (FASB, 2010). De Franco et al. (2011) define accounting comparability as the closeness of the accounting system between two companies. If companies produce similar accounting numbers when faced with similar economic events, accounting comparability increases. The comparability of financial statements helps the users of financial statements to have a better understanding and evaluation of the economic performance of a company compared to its peers (FASB, 2010). Comparability enables stakeholders to gain a deeper understanding of economic similarities and differences among firms within an industry. Comparability is a distinctive qualitative characteristic that facilitates the detection of opportunistic managerial behavior. Comparability is a regulatory tool that reduces information processing costs for investors and regulatory agents. For example, in companies with greater comparability, earning management based on accruals is less. It also increases the comparability of the

1. doi: 10.22051/JERA.2024.47241.3246
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quality and transparency of the information environment, thereby enabling investors, analysts, auditors, and institutional investors to more closely monitor management behavior. Because comparability creates various benefits by increasing the quality of the information environment and reducing the costs of acquiring information. Therefore, it is important to understand the factors that improve comparability. One of these factors is the company's life cycle.

The life cycle of the company consists of five different stages: introduction, growth, maturity, decline, and stagnation. These stages are induced by both internal factors (such as strategic choices, resources, and managerial ability) and external factors (such as the competitive environment and macroeconomic factors). The concept of the company life cycle provides an effective way to classify companies into different stages that reflect very different circumstances. Some of these conditions, such as human resources, availability of resources, and opportunities and incentives for managerial discretion, probably play an important role in shaping the quality of financial reporting. It can be expected that these conditions lead to differences in the quality of financial reporting and comparability of companies.

Competitive strategies, resources, and environments create different organizational structures, systems, and agency problems and thus shape financial reporting processes. This dynamic creates an environment for comparison between companies in the life cycle stage to be different in different stages. Companies in the maturity stage have organizational structures, better internal controls, and skilled employees, which facilitate the preparation of comparable financial statements. Mature companies have relatively stable profitability and less volatile cash flows. Therefore, it is less challenging for managers of mature companies to estimate future revenues and expenses that reflect actual economic conditions. Therefore, they increase comparability among industry peers.

Firms in the introduction and growth stages may have incentives to prepare comparable financial statements because such firms face problems of information asymmetry and have limited access to financial resources, which are critical for investment and innovation to maintain competitive advantage. More comparable financial statements can provide access to external financing. However, companies in introduction and growth also have underdeveloped accounting systems and weaker internal controls that act as barriers to increasing the level of accuracy of future accounting estimates, thus resulting in lower levels of comparability. Declining companies also suffer from poor comparability due to the phenomenon of "aging liability". In particular, reducing firms' internal inefficiencies and the erosion of technology, products, business concepts, and management strategies pave the way for companies to avoid using their existing resources to establish sound accounting systems, practices, and internal control mechanisms, thereby reducing comparability. Gives. Companies at different stages of the life cycle differ in their ability to raise capital. For example, young companies generally choose private equity, while mature companies rely mostly on the public markets. Companies in the introduction stage are relatively small, unknown, and less followed by analysts and investors. This creates an information asymmetry that causes mispricing. In contrast, mature firms are known to investors and are more followed by analysts, suffer less from information asymmetry problems, and as a result, have a lower cost of capital and greater comparability of financial statements. Therefore, the purpose of this research is to investigate the effect of the company's life cycle on the comparability of financial statements with regard to the role of information asymmetry.

METHODS

The statistical population of this study is all companies listed in the Tehran Stock Exchange, in which 100 companies in the period 2012 to 2023 have been selected by systematic elimination method. For data analysis and hypothesis testing, a multivariate regression model based on panel data regression is used.

RESULTS

The findings of the research showed that the comparability of financial statements is higher in the maturity stage than in other stages. Also, the findings showed that despite high information asymmetry, firms in the maturity stage are more inclined to present comparable financial statements.

CONCLUSION

Investigating the impact of the company's life cycle on comparability is potentially important to regulators, investors, analysts, and auditors. For example, if comparability varies across life cycle stages, knowing which life cycle stages are problematic can alert analysts and auditors to be more careful in analyzing and auditing companies. Similarly, standard setters and regulators can monitor and require or encourage comparability between companies at a particular stage of the life cycle. Comparability enhances the ability of users of financial statements to evaluate a company's performance against its peers by highlighting the similarities and differences between business units that arise due to the existence of similar economic conditions. However, focusing on comparability without assessing whether comparability changes throughout the company's life cycle provides a consistent perspective. In the maturity stage compared to other stages of the life cycle, the company has a strong organizational structure, skilled workforce, and strong internal control. This issue causes

the degree of comparability to be different in different stages of the company's life cycle.

Keywords: Financial Statement Comparability, Life Cycle, Information Asymmetric.

JEL Classification: G32 ،M41 ،D42.