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## ACCOUNTING CONSERVATISM AND CASH HOLDING IN ASSOCIATION WITH STOCK RETURNS

***Dr. Ali Mohammadi*** * (Corresponding Author),
*Assistant Professor of Accounting, Department of Accounting, Zanjan Branch, Islamic Azad University, Zanjan, Iran.*
***Zeynab Barzegar Noshahr,***
*Ph.D. Student in Accounting, Department of Accounting, Zanjan Branch, Islamic Azad University, Zanjan, Iran*

**Abstract.** The present research investigates the relationship between accounting conservatism and cash holdings on the one hand and the stock returns of companies listed in Tehran Stock Exchange. It is applied research and methodologically of causal (post-event) type; its statistical population is all companies accepted in Tehran Stock Exchange. Using a systematic elimination sampling method, finally 104 companies were selected as research sample and its period was between 2012 and 2016. The method used to collect information was library and to test the hypotheses the multiple regression with panel data model was used.
The results of the research show that there is a positive and significant relationship between accounting conservatism and stock returns, but there is a negative and significant relationship between stock holding and stock returns.

**Key words:** accounting conservatism, cash holding, stock returns

**Introduction.** Investors, as the main suppliers of corporate resources, want complete and accurate information from companies; in efficient capital markets, it is assumed that all available information is quickly absorbed by the individuals and its effects reflected in the price of the securities. It embodies the individuals' judgment and their decisions in securities prices. Accounting information is manifested in the financial statements. Investors always use the accounting information consistently and uniformly without modifying this information in terms of the changes made in accounting methods or how they are calculated. (Hendriksen, 1982). One of the most important accounting information is the form of profit and loss; investors focus their attention on net profit as the last item of information on profit and loss. As the final result of the accounting process, so important for the accounting information users, the profit is calculated under influence of accounting procedures selected by the management. The possibility of choosing accounting procedures allows management to decide on the time of recognition and measurement of costs and income. Management is motivated by the application of other non-conservative accounting procedures to stabilize corporate profit growth. This will increase the expectations of shareholders in the coming years (Watts, 2003).

Conservative accounting plays an important role of information. The information role of conservative accounting increases the accuracy and clarity of information (Guay & Verchika, 2007, Coxi et al., 2009).

During the growth of the company, as cash increases, managers decide whether to distribute cash between shareholders, spend on domestic expenditures, apply for study abroad or to be retained. How utilitarian managers choose between spending cash and retaining it is a vague subject. According to hierarchical theory, companies prefer to finance intra-corporate resources over external financing that is sensitive to information. This theory is based on the assumption that individuals inside the company are more aware of than the shareholders. If resources inside the company are not enough to finance optimal investment programs and the information asymmetry is an obstacle, managers may have to abandon profitable plans. In this case, cash is very valuable, and the only opportunity for the publication of shares without losing market value occurs when there is no information asymmetry (Drobts et al., 2010).

Stock returns in the investment process are a driving force that motivates the investor and serves as a reward for him. This reward consists of two received dividend and capital gains and losses. In this research, the stock returns are the stock returns of the main companies, which are considered as a dependent variable.

Given the above, the following questions have been answered in the present research:

What is the relationship between accounting conservatism and stock returns?

What is the relationship between cash holding and stock returns?

**Theoretical foundations, research background and hypotheses.** One of the main consequences of the conservative asymmetric behavior in relation to profits and losses is the insistence on a less realistic presentation of the net asset value. Legislators of capital markets, standards makers, and academics criticize conservatism for this reason, which, in the current period, this less realistic presentation can lead to the less realistic presentation of the costs of future periods and hence lead to more than real presentation in the coming periods. But APB (Accounting Compilation Board) has listed conservatism as a financial accounting adjusting convention in declaration number 4; it states that assets and liabilities are often evaluated in a rather uncertain conditions, and therefore accountants answer with caution.

Chatfield traces the conservatism in the Middle Ages. When the owners of large properties left their affaires to the supervisors. The supervisors soon realized that conservatism was a means to protect themselves. Failure to predict the increase in the value of assets was important, because if at that time an event occurred that caused a decrease in property, the for owner the supervisor was responsible for that. Kiso, Vigant, and Varfield (2001) define conservatism as follows: "Traditionally, accounting conservatism is a means that, in doubt on choosing a procedure that may lead to more than real presentation of assets and profits, provides a solution with the least consequence". For example, paragraph 95 of the Declaration of Financial Accounting Concepts No. 2 (1980) states: If for a payable or receivable amount there are two estimates with the same probability level, the conservatism will select the estimate I which the least optimism is considered.

According to Beaver (1998), conservative behavior is such that it leads to less revenues (compared to greater revenues) and higher costs (compared to lower costs) and identifies non-endured losses; however, it does not identify unrealized profits. Hence, as Fletham & Ohelson (1995) stated, it is expected that these results would lead to a disparity between market value and the book value of stock in long-term (Shroff, Venkataraman and Zhang, 2004).

Conservatism has always been a concern among scholars as one of the factors influencing accounting procedures throughout history. There are various indications of conservatism from the very old times; as Penndorf (1930) has said, "the historical evidences of the 15th-century corporations have shown that accounting in medieval Europe was Conservative" (Basu, 1997).

Chatfield also believes that conservatism is rooted in the Middle Ages. At that time, the lord of fief gave his estate administration to supervisor; the supervisor soon realized that having a conservative position was to protect himself. It was more cautious not to predict the increase in the value of the assets, because, if the increases were not realized, the owner could have considered the supervisor responsible. Chatfield notes that in the England in the late nineteenth century, claims were filed by investors after the bankruptcy of companies.

Jensen defines free cash flow, surplus cash flows invested in projects whose net present value is positive; he states that this free cash flow is invested in projects whose net present value is negative.

The concept of cash flow is focused on the amount of liquidity. Companies invest in current and long-term assets in order to survival. Therefore, free cash flow is the surplus cash flow invested in assets such as inventory, equipment and stocks of other companies, etc. by the company. When the company is able to create surplus cash flows being excess of the company's expenses to maintain its survival in the business, it has free cash flow. These funds can be shared between shareholders or be maintained for further growth in the company.

Nowadays, due to turning companies into performance evaluation, the free cash flow has attracted the interest of many groups. Free cash flow can be described as an index in the performance appraisal and reporting of the trade unit's economic value. The basic assumption is that the value of a trade unit is due to the company's ability to generate cash flows. In this way, the value of a company depends on the amount of future cash flows, timing and risk of these flows. This valuation method takes into account all the elements that affect the value of a company. Consequently, reward committees and general assemblies of companies have turned to this scale to emancipate from the trap of accounting profit and other performance appraisal scales based on accounting items. The scales of economic value added and cash flow are the main scale of measuring the company that does not have the failures of

other accounting scales. They strive to create a balance between the interests of the shareholder class and the managers.

Remaining of cash flows without any adjustments may be misleading, since cash flows do not reflect the output required to maintain company survival. One of the alternative scales is the free cash flow developed by Jensen. Free cash flow is a criterion for measuring corporate performance, and shows the cash available to the company after spending the funds necessary to maintain or develop its assets.

Free cash flow is important, because it allows the company to search for opportunities that increase shareholder value. Without having cash, developing new products, doing business educations, paying cash benefits to shareholders and reducing debt are not possible. On the other hand, cash has to be kept at a level that maintains a balance between the cost of keeping the cash and the insufficient cash cost.

Free cash flow is a golden standard, because it shows the profitability of a company's operations. Free cash flow is not a complete criterion, but it is difficult to manipulate it compared to the profit and profit of each share, which is why it is preferred over the net profit. Profit of a company may be a high and growing amount, but as long as the cash released is not considered, we cannot realize if these profits are equal to the cash achieved for a company in a given year or no. The owners of capital are ultimately interested in cash funds. The free cash shows withdrawable funds that the profit does not show it.

Return in the investment process is a driving force that creates incentives and is a reward for investors. The return resulting from investment is important for investors, because the whole investment game occurs in order to achieve return. The purpose of an investment is the current value of money in a given time period in order to obtain future income that will give the investor 1) time to receive funds 2) the expected inflation rate 3) uncertainty in future payments. When we invest, we postpone current consumption to increase our assets, so we can consume more in the future. This change may either be due to cash flows such as interest or dividends or due to a positive or negative change in asset price. An investor can be a person, a government, a retirement fund or a company. They invest in order to achieve a return of their investment that results in delaying consumption. They want a rate of return that over time compensates for the expected inflation rate and uncertainty of return. Therefore, in order to achieve these goals, investors should make a reasonable assessment of alternative and different investments. For this choice, it is necessary to estimate the risk and return for the options (Eslami Bigdeli et al., 2005).

Risks and return are two major subjects for investors. To quantify the relationship between risk and return, we can use capital asset pricing model (CAPM). In this model, the only factor that affects stock returns is systematic risk (beta). There are other factors that affect the stock returns. Fama & French introduced the multifactor model by adding two variables: ratio of book value to stock market value and the company size as two variables that have a significant effect on stock returns (Ahmadpour & Rahmani, 2007).

**Research background.** In a research entitled *Corporate Governance and Cash-holding in the Middle East and North Africa: Evidences from domestic and foreign sovereignty*, Al-Najjar and Clark (2017) found that there was a negative correlation between the size of the board and the level of cash holding; it suggests that companies will save less cash to reduce agency costs. Foreign corporate governance activities are important in cash-holding management decisions, because companies in countries that have international standards of securities law and banking supervision keep cash less.

In a research entitled "*Weaknesses in internal control and cash holding*," Huang and Chou (2016) came to the conclusion that companies do not accompany material weaknesses in internal control in general with lower cash value. Also, the relationship for internal control difficulties related to the institution level is stronger than those related to the strong account level. In addition, cash value will increase after qualified inspecting firms are inadequate in internal control.

In the research, "Outcome of Cash Components of profit, Profitability, and Stock Returns", Panagiotis et al (2016) found that cash components of profit such as the ratio of operational cash flows and cash equivalents had a positive effect on stock returns and, in the long run, increased annual returns. Also, the results of their research indicated that the profitability in the short and long term, taking into account the criterion of optimal growth opportunities and investment in the capital market, would increase daily and annual stock returns.

In a research entitled *Relationship between Inflation news and Stock Returns*, Sun (2015) investigated the relationship between inflation news and stock returns variables during 2009 and 2012. Their research results showed that stock price does not increase steadily with inflation, and it takes time to raise stock prices in line with inflation.

Basakzadeh & Khodamoradi (2017) investigated the relationship between bankruptcy and conservatism in accounting. The result of this research proves the significant relationship between bankruptcy and conservatism, and the operations of companies include conservative accounting practices to reduce bankruptcy.

In a research entitled *Theoretical and empirical analysis of the effect of the competitive power of product market on the stock returns of companies accepted in Tehran Stock Exchange*, Gougerdchian et al (2016) found that from among the introduced indices, the industry centralization, product substitutability, market size and Q-index of Tobin have had a negative and significant effect on stock returns of these companies; but barriers to entry have not had a significant effect on stock returns. Therefore, it can be concluded that companies with high competitive power have achieved low returns.

Amiri et al (2017) studied the effect of the outcome of cash components of profit and profit continuation on stock returns of companies accepted in Tehran Stock Exchange. The results of the research in relation to confirmation

of the first hypothesis of the research showed that the percentage of cash components of the profit exceeds the percentage of components of accruals of profit on the stock returns of companies. Also, according to the analysis carried out in connection with the confirmation of the second hypothesis of the research, we conclude that the percentage of cash components of profit affects more than the percentage of cash distribution the stock returns of companies. Finally, according to the analysis done in connection with the confirmation of the third hypothesis of the research, we conclude that the percentage of cash components of the profit affects more than the percentage of stock price growth the stock returns of the companies.

In a research entitled Effect of Conservatism of the profit on stock returns and book value of financially helpless companies accepted in Tehran Stock Exchange, Gholipour & Fattahi (2014) found that there was no significant relationship between stock returns and conditioned conservatism.

In a research entitled "*Investigating the effect of retained cash and management of working capital on surplus stock returns of companies*", Fakhari & Rouhi (2013) showed that short-term decisions affect the surplus of stock returns; they state that due to Financial resource constraint, the cash holding and working capital have a direct relationship with the surplus of stock returns.

In their research, relationship between intra- and extra-corporate factors and cash holding in companies admitted to Tehran Stock Exchange, Ahadi Sarkani et al (2013) came to the conclusion that the variables of operating cash, company size, fixed assets volume, profit non-dividend, inflation rate, liquidity volume and exchange rate are significantly correlated with the level of cash holding of the company. Also, these results indicate that there is no significant relationship between the variables of ownership concentration, gold price and oil price on the one hand and the level of companies' cash holding on the other.

Aghayee et al (2009) studied the effect of ten factors on maintaining cash holdings by companies. Their research evidences suggest that receivable accounts, net working capital, inventories and short-term debts are among the most important factors with a negative effect on the cash holdings. On the other hand, the company's growth opportunities, dividends, fluctuations in cash flow and net profit are among the most important factors with a positive impact on the cash holdings. However, there was insufficient evidence of the negative impact of long-term debts and corporate size on cash holdings.

Mehrani et al (2009) tested the quality of accounting and cash accumulation based on the Troyal and Solana (2009) model; their test results that were conducted during the years 2000 to 2006 and in the companies admitted to Tehran Stock Exchange show that the level of cash inventory in companies with higher accounting quality is lower than those with lower accounting quality.

***Hypotheses***

1 -There is a direct and significant relationship between cash holding and stock returns

2- There is a direct and significant relationship between conservatism and stock returns.

***1. Research method***

In terms of gathering information, this research has used the library method; its theoretical foundations have been derived from books, journals, articles, and Persian specialized theses in the field of finance and accounting. For collecting data from databases, documents, companies' records and auditing reports, financial statements and other documents and accompanying notes adopted from the Tehran Stock Exchange archive, we have used the Rahavard software. The research method is descriptive and correlational of causal (post-event) kind; in terms of purpose it is applied. To test the hypotheses, Stata14 software and panel data regression have been used.

***Statistical population, sampling method and sample size***

The statistical population of the research is all companies accepted in Tehran Stock Exchange. A statistical sample has been also determined by systematic elimination and applying the following conditions:

1 .In order to make information comparable, the companies' end of the fiscal year is the end of March.

2 .During the period (5 years) under study, they do not consider any change in the financial period.

3 .Information on the variables selected be available in this research.

4 .There is no trading interval for more than 3 months.

5 .Being not financial intermediation companies.

6. Before 2012, they have been accepted in Tehran Stock Exchange and have not left it up to the end of 2016.

***Research models***

$$, - , = {}_0 + {}_1\Delta , + {}_2 , + {}_3\Delta , + {}_4\Delta , + {}_5\Delta , + {}_6\Delta , + {}_7\Delta , + {}_8\Delta , + {}_9 , -1$$
$$+ {}_{10} , + {}_{11}\Delta , , -1 + {}_{12}\Delta , , + {}_{13}\Delta , , + {}_{14}\Delta , , , + \varepsilon ,$$

:Company error in year t

ΔC: Changes in cash holding

LEV: Financial leverage

ΔNF: Changes in cash financing

ΔD: changes in cash dividend

ΔI: Changes in interest expense

ΔRD: Changes in research and development expenditures

ΔNCA: Changes in net assets

ΔE: changes in profit

ΔAC: conservatism in accounting

ΔC: Changes in cash holding
$r_{I,t} - M_{I,t}$: stock returns - market index
$r_{I,t}$: stock return = stock price at the beginning of the period / (stock price at the beginning of the period - stock price at the end of the period)
$M_{I,t}$ : Market index = Market index at the beginning of the period / (Market index at the beginning of the period - Market index at the end of the period)
To obtain ΔAC (conservatism in accounting), we operate in the following way:
ΔAC = Conservatism of each company in the previous year / (Conservatism of each company in previous year - Conservatism of each company in the new year)

$$_{i,t} = \gamma_{i,t} + \gamma 2_{i,t}SIZE_{i,t} + \gamma 3_{i,t}MB_{i,t} + \gamma_{i,t}LEV_{i,t}$$

MB = Market value is the book value of owner's equity
SIZE = Market Value
LEV = debt ratio

### *2. Data analysis*

4-1 Research descriptive statistics
Table 1 shows the descriptive statistics of the data related to the variables used in the research. Descriptive statistics of 104 sample companies over a five-year period (2016 to 2016).

Table 1: Description of dependent and independent variables

| Variable | Symbol | Mean | Median | Maximum | Minimum | Standard deviation |
|---|---|---|---|---|---|---|
| Stock returns | R-M | 75.59236 | 89.64267 | 201.0008 | -325.312 | 47.50973 |
| Changes in cash dividend | ΔC | 116078.7 | 15671.00 | 4944032. | 0.000000 | 469028.1 |
| Conservatism | AC | 15.97752 | 15.20535 | 323.3889 | -108.3484 | 16.45548 |
| Financial leverage | LEV | 0.615378 | 0.626461 | 2.224770 | 0.012734 | 0.258502 |
| Changes in cash financing | ΔNF | 1365640. | 112765.0 | 1.69E+08 | 0.000000 | 9777104. |
| Changes in cash dividend | ΔD | 451.4260 | 251.9586 | 4568.193 | 0.000000 | 659.0158 |
| Changes in interest expense | ΔI | 79488.70 | 9912.000 | 6799958. | 0.000000 | 412866.8 |
| Changes in research and development expenditures | ΔRD | 2046.911 | 0.000000 | 336761.0 | 0.000000 | 16492.72 |
| Changes in net assets | ΔNCA | 315193.9 | 20374.00 | 16212450 | 0.000000 | 1427867. |
| Changes in profit | ΔE | 300379.5 | 52663.00 | 12425465 | 0.000000 | 1063101. |

The most central index is the mean, which represents the equilibrium point and distribution center, and is a good index for showing the centrality of the data. For example, the average value for a financial leverage variable is (0.6264), which indicates that most data are focused around this point. Or, in other words, the ratio of debt to assets of most of the companies under study is 62%. In general, dispersion parameters are a criterion for determining the degree of dispersion of each other or their dispersion relative to the mean. The most important parameter of dispersion is standard deviation. The value of this parameter for the conservatism variable is 16.45. The lowest and the highest are the minimum and maximum of each variable.

4-2 Normality of error sentence

One of the important assumptions about the remaining sentence is that the distribution of its sentences is normal. The Jarque-Bera test has been used to test the normality of the error sentence. According to the results, the probability of the Jarque-Bera test statistic in the research model is less than 5%. Therefore, the zero assumption that the error component is normal is rejected. When the sample size is large enough, the deviation from the normal assumption is usually trivial and its consequences are negligible. Under these conditions, according to the central limit theorem, it can be seen that even if the remaining is not normal, the test statistics follow asymptotically the normal distribution, they are unbiased and efficient. Accordingly, one can ignore the assumption of the normality of the error component.

Table 2: Results of the normality of error sentence

| Description | Jarque-Bera statistic | Probability | Result |
|---|---|---|---|
| Research model | 0.00 | 1603.96 | Normality of error component |

4-3 Heteroscedasticity test

In this research, the Arch test has been used to estimate the heteroscedasticity.

Table 3: Heteroscedasticity test

| Description | F statistic | Error probability |
|---|---|---|
| Research model | 1.437 | 0.231 |

Regarding the observed results, the significance level of the test is more than 0.05%. It can be argued that the research model is not of heteroscedasticity for testing hypotheses.

4-4 Assumption of the absence of collinearity between independent variables

Collinearity is a condition that indicates that an independent variable is a linear function of other independent variables. If the collinearity is high in a regression equation, it means that there is a high correlation between the independent variables and that, despite the high $R^2$, the model may not have high validity. So the vif value of the independent variables should be less than 10. The following table shows that the value of vif for independent variables is less than 10, so there is no linear relationship between independent variables.

Table 4: vif test

| Variables | Symbol | Vif value |
|---|---|---|
| Changes in cash dividend | ΔC | 3.924617 |
| Conservatism | AC | 1.044586 |
| Financial leverage | LEV | 1.150844 |
| Changes in cash financing | ΔNF | 3.561753 |
| Changes in cash dividend | ΔD | 1.040456 |
| Changes in interest expense | ΔI | 1.585249 |
| Changes in research and development expenditures | ΔRD | 1.100212 |
| Changes in net assets | ΔNCA | 2.342590 |
| Changes in profit | ΔE | 3.075862 |

4-5 F-limer test and Hausman test

As shown in Table 5, the F Limer probability of the research model is less than 5%. Therefore, the panel method is used to estimate the model. Also, the results of Hausman test showed that random effects were used to estimate the model.

Table 5: Results of Limer and Hausman tests

| Description | statistic | Statistic value | Degree of freedom | Probability | Result |
|---|---|---|---|---|---|
| Research First model | f-Limer | 8.690 | (10.499) | 0.000 | Panel method |
| | Hausman | 87.94 | 9 | 0.000 | Random effects |

4-6 Testing hypotheses

Hypothesis 1: There is a significant difference between cash holding and stock returns.

H0: There is no significant difference between cash holding and stock returns.

H1: There is a significant difference between cash holding and stock returns.

Table 7: Regression coefficients for the first hypothesis

$$R\text{-}M_{it}=a+\beta_1 \Delta C_{it}+ \beta_2 LEV_{it} + \beta_3 \Delta NF_{it} +\beta_4 \Delta D_{it} + \beta_5 \Delta I_{it} + \beta_6 \Delta RD_{it}+ \beta_7 \Delta NCA_{it} + \beta_8 \Delta E_{it} + \varepsilon$$

| Independent variable | T-Statistic | Std. Error | Coefficient | Prob. |
|---|---|---|---|---|
| AC | -2.403503 | 5.34E-06 | -1.28E-05 | 0.0167 |
| LEV | -24.12310 | 6.267342 | -151.1877 | 0.0000 |
| ΔNF | -1.637583 | 2.75E-07 | -4.51E-07 | 0.1023 |
| ΔD | -2.615040 | 0.002537 | -0.006636 | 0.0093 |

| | | | | |
|---|---|---|---|---|
| ΔI | -0.295874 | 5.52E-06 | -1.63E-06 | 0.7675 |
| ΔRD | -0.645925 | 9.25E-05 | -5.97E-05 | 0.5187 |
| ΔNCA | 0.643632 | 1.73E-06 | 1.11E-06 | 0.5202 |
| ΔE | 3.171914 | 2.25E-06 | 7.15E-06 | 0.0016 |
| C | 39.36422 | 4.345270 | 171.0481 | 0.0000 |
| Determination coefficient | | | 0.7038 | |
| Fisher test | | | 8.715 | |
| Fisher significance level | | | 0.000 | |
| Durbin-Watson test | | | 2.35 | |

The results of the table above show that the panel method has been used for data sorting. Also, for estimating the model of this hypothesis the fixed effects method has been utilized. The results of the Durbin-Watson (2.35) indicate that the errors of the variables are independent and not related. In this table, we see that the value of the coefficient of determination is 0.7038, which indicates that the model has been justified by independent variables by 70%. Also, the Fisher's test significance level by 8.715 (0.000) indicates that the model has a significance with less than 1% of error. The t-test significance level (0.0167) for the cash holding variable shows that its significance level is less than 0.05 (with 95% of confidence level). Therefore, the dependent variable has been affected, so the assumption $H_0$ is rejected and the $H_1$ assumption is confirmed. As a result, there is a direct and significant relationship between cash holding and stock returns.

Second hypothesis: There is a significant relationship between conservatism and stock returns.

$H_0$: There is no significant relationship between conservatism and stock returns.

$H_1$: There is a significant relationship between conservatism and stock returns.

Table 8: Regression coefficients for the second hypothesis

| $R\text{-}M_{it}=a+\beta_1 AC_{it}+\beta_2 LEV_{it}+\beta_3 \Delta NF_{it}+\beta_4 \Delta D it+\beta_5 \Delta I_{it}+\beta_6 \Delta RD_{it}+\beta_7 \Delta NCA_{it}+\beta_8 \Delta E_{it}+\varepsilon$ | | | | |
|---|---|---|---|---|
| Independent variable | T-Statistic | Std. Error | Coefficient | Prob. |
| AC | -2.141243 | 0.089175 | 0.190946 | 0.0328 |
| LEV | -24.03086 | 6.146634 | -147.7089 | 0.0000 |
| ΔNF | -3.004052 | 2.46E-07 | -7.39E-07 | 0.0028 |
| ΔD | -2.438988 | 0.002531 | -0.006174 | 0.0152 |
| ΔI | 0.414046 | 5.51E-06 | 2.28E-06 | 0.6791 |
| ΔRD | -0.970373 | 9.16E-05 | -8.89E-05 | 0.3324 |
| ΔNCA | 0.541163 | 1.73E-06 | 9.35E-07 | 0.5887 |
| ΔE | 1.998911 | 1.54E-06 | 3.08E-06 | 0.0463 |
| C | 38.56185 | 4.452415 | 171.6934 | 0.0000 |
| Determination coefficient | | | 0.7030 | |
| Fisher test | | | 8.67 | |
| Fisher significance level | | | 0.000 | |
| Durbin-Watson test | | | 2.33 | |

The results of the table above show that the panel method has been used for data sorting. Also, for estimating the model of this hypothesis the fixed effects method has been utilized. The results of the Durbin-Watson (2.33) indicate that the errors of the variables are independent and not related. In this table, we see that the value of the coefficient of determination is 0.7030, which indicates that the model has been justified by independent variables by 70%. Also, the

Fisher's test significance level by 8.67 (0.000) indicates that the model has a significance with less than 1% of error. The t-test significance level (0.0328) for the conservative variable shows that its significance level is less than 0.05 (with 95% of confidence level). Therefore, the dependent variable has been affected, so the assumption $H_0$ is rejected and the $H_1$ assumption is confirmed. As a result, there is a positive and significant relationship between conservatism and stock returns.

**Discussion and conclusion.** In the present research, the relationship between accounting conservatism and cash holding on the one hand and the stock returns of Tehran Stock Exchange (TSE) companies on the other has been investigated for the years 2012-2016. The sample size of the research is 104 companies and the number of observations 520 companies per year. In particular, accounting conservatism, cash holding and stock returns were the main variables of this research. Two hypotheses were investigated and tested in this research. According to the results of the first hypothesis test, there is a reverse and significant relationship between cash holding and stock returns. In other words, by increasing cash holding, the stock returns are reduced. The result of this hypothesis is opposed to the results of the research of Panagiotis et al (2016) and also contradicts the results of the research of Fakhari & Rouhi (2013). According to the results of the test of the second hypothesis, it can be said that there is a positive and significant relationship between conservatism and stock returns. That is, with increasing conservatism, stock returns will also increase. The result of this hypothesis is opposed to the results of Gholipour & Fatahi's (2014) research. They found that there was no meaningful relationship between stock returns and conditioned conservatism. Therefore, according to the results of the first hypothesis of the research, which showed that there is a reverse and significant relationship between cash holding and stock returns, managers and owners of the companies are recommended to have a low level of cash holding in order to have higher returns. The investors are recommended to invest in companies that have low cash holding for generating greater stock returns and, based on the results of the second hypothesis, companies are advised to have more conservatism for higher stock returns.

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