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EFFECT OF FINANCIAL FACTORS ON FIRM'S FINANCIAL AND TAX REPORTING DECISIONS

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ABSTRACT :

This study aims to investigate the effect of financial factors on firm's financial and tax reporting decisions. The statistical community includes all TehranStockExchange listedcompanies. Sampling was done by screening to choose 122 companies as samples during 2010-2015. This is a semi-experimental research and the study is practical in purpose. The data were analyzed using Logitregression. The results indicated that there is a significant negative relationship between debt ratio and firm's e financial and tax reporting. In addition to, there is a significant positive relationship between financing by long-term debt and financing problems withfirm's financial and tax reporting. However, there is no significant positive relationship between corporate internal (external) financing and firm's financial and tax reporting.

KEYWORDS : *Debt Ratio, Financing by Long Term Debt, Financing Problems, Corporate Internal (External) Financing, firm's Financial and Tax Reporting.*

INTRODUCTION

The managers of companies have different motives to report earnings higher for financial reporting and lower for tax reporting. However, the encounterhigh differences between tax earnings and book profits in real situations. In fact, they cannot choose aggressive accounting conditions in financial reportingand earnings reduction for tax avoidance (Hunt, 1996). So logical managers select compound conditions to keep financial and tax purposes. Specifically, they focus on financial reportingby earnings management and this happens when the cost of financial reporting is more than tax reporting. On the other hand, when the cost of tax reporting is more than financial reporting, they emphasize on tax reporting by up-down management of taxable income. Financing is an important activity that supports daily operations in companies, because the capital of the company is necessary for investing on working capital. Lack of financial capability leads to liquidity risk and financing can remove the worries. Therefore, financing is one of the most considerable activities that affects on company managers' decisions.

In addition to, there are various financial factors relating to financial and tax reporting processes. Hence, it is expected that financial factors like debt ratio level, financial deficit and market access affect on corporate decision making between earnings management and tax avoidance. First, debt ratio relates to financial reporting cost because debt increase results in enhancing the risk of incapability in observing debt contracts. The researches indicated that companies having more debts, are more motivated in managing book profit I order to decrease

financial reporting cost (Watts & Zimmerman, 1986; Duke & Hunt, 1990; DeFond&Jiambalvo, 1994; Sweeney, 1994; Beneish, 2001).

In addition, debt ratio makes companies to use it as tax acceptable cost in tax reporting for doing aggressive tax reporting (Collins & Shackelford, 1992; Dhaliwal et al. 1992). Debts are divided into short-term and long-termdebts based on their overdue. The short –term debts affect on aggressive tax reporting more because they make some problems like reducing the power of liquidity as they have short durations to overdue. Therefore, the managers of these companies (with more short-term debts) are more motivated in earnings management that leads to provide aggressive tax reporting (Koh& Lee, 2014). Long –term debts have less costs than short –term debts because of their low costs and financing. Researchesindicated that companies with more tax costs are motivated to use long-term debts. According to the effect of debt ratio and long-term debts on aggressive financial and tax reporting decisions, this study investigates the effect of financial factors on firm's financial and tax reporting decisions in Tehran Stock Exchange listedcompanies.

2- THEORETICAL PRINCIPLES

Complying rules and regulations like tax ones depends on managers' thought and management systems of companies and for-profit organizations. If mangers believe in paying taxes, as a legal and social commitment, on time, they will have different tax costs and situations. In Iran, some managers are more sensitive to this issue and some do it not as a duty but as a legal constraint. Therefore, they try to delay paying their taxes. This problem was surveyed in companies' management systems (legal and institutional shareholders in companies, type of ownership and firm size) and had different conclusions in different countries (Abdoli et al, 2012). Since tax costs areone of the most important ones in companies and lead to liquidity withdrawal and dividend reduction, the cost of tax and payable tax is paid attention by executive directors, board of directors and shareholders; therefore tax policies (aggressive and conservative) are the policies focused by shareholders and capital market in evaluating managers. The rate of debts and financing problems are among the most important and effective factors on aggressive tax policies. Balance theory, for the relationship between debt rate and aggressive financial and tax reporting, states that tax profit, resulted from debts, enhances the value of the company in debt.

On the other hand, the costs of financial crisis and probable bankruptcy, resulted from not paying the tax on time, reduce the value of the company in debt.So that, the company capital structure can be considered as the balance between tax profits of debts and costs of financial crisis and probable bankruptcy, resulted from the debts. The two factors neutralize each other(the balance of debts profits and expenses) using debts in capital structure (Sibilkov, 2005). One of the common subjects in stable balance theory for American companies is that this theory predicts high leverage rates for companies, while American companies have low leverage rates. Researches in determinant factors of capital structure protect stable balance theory in this country and hypothesize that there is a weak correlation between debts rate and aggressive tax. However, according to high leverage rate in Iranian companies, there is a significant correlation between debts rate and aggressive tax.

3- LITERATURE REVIEW

LanisandRichardson(2011) concluded that there is a negative and significant relationship between the number of non-bounded board members and aggressive tax procedure. When the number of non-bounded board members increases, the company pays less attention to tax management.

Koh and Lee (2014) investigated the effect of financial factors on companies financial and tax decisions; and found that debt ratio was effective on aggressive financial reporting and companies with long-term debts applied more aggressive financial reporting.

Abdoli et al. (2013) studied the relationship between aggressive financial reporting and firm size with aggressive tax policies. They surveyed 102 companies listed in TehranStockExchange during 2007 – 2010 that were chosen from all types of industries except banksand financial organizations. They used regression logistic in 95% certainty. The findings indicated that if discretionary accruals (as a replacement for aggressive financial policy) enhances in a company, there would be more differences betweenexpression tax and diagnostic tax; the tax differences were based on tax exemption of articles 132 and 138 direct tax regulations. This happening was

more considerable in big companies. Authors found that the difference between expression and diagnostic taxes, specifically in small and medium sized companies, was related to rejecting the costs of article 147 and 148 in direct tax regulations.

Khani et al. (2013) studied the relationship between aggressive financial reporting and aggressive tax reporting. The statistical community includes 67 companies listed in TehranStockExchange during 2004-2009. Modified average residuals of Jones model and book-tax differencewere used in measuring aggressive financial reporting. Spearman and Pearson correlation coefficients were used in Eviews 7 to test the hypotheses. The results indicated that there is a positive and significant correlation between aggressive financial reporting and aggressive tax reporting.

BahriSales et al. (2014) investigated the board characteristics and aggressive tax strategy. They chose 71 companies listed in TehranStockExchange during 2003-2011. Multiplelinear least squares regression model was applied to test the hypotheses. Findings indicated that there is a significant relationship between some characteristics and aggressive tax strategy while some other do not relate significantly. As the board characteristics (the board independence and knowledge) relate to aggressive tax strategy significantly. In addition to, there is no significant relationship between the board characteristics (board size and number of board meetings) and aggressive tax strategy. Finally, there is a significant relationship between control variables (financial leverage) and aggressive tax strategy, while control variable (firm size) does not relate to aggressive tax strategy, significantly.

4- HYPOTHESES

1) There is a significant negative relationship between debt ratio and aggressive financial and tax reporting.
2) There is a significant positive relationship between financing by long-term debt and aggressive financial and tax reporting.
3) There is a significant positive relationship between financing problems and aggressive financial and tax reporting.
4) There is a significant positive relationship between corporate internal (external) financing and aggressive financial and tax reporting.

5- METHODOLOGY

This is a semi-experimental retrospective research since the data belong to last periods and were collected without author's interference; the study is practical in purpose. Due to data analysis, the relationship between dependant and independent variables are correlative. This is a library research in collecting the data. Theoretical principles involve using books and professional magazines; the intended data were extracted from financial statements and explanatory notes by Tadbirpardaz software. The data were analyzed and the hypotheses were tested using Logit regression(asdependant variable is nominal variable) in Eviews7. The research happened during 2010-2015 for a six-year period. The statistical community includes all TehranStockExchange listedcompanies.The samples were chosen by screening and according to the following criteria: a) fiscal year should be ended untilMarch 20.B) The company should not change the fiscal year during 2010-2015. C)itshould not a bank or financialorganization (investment company, financial intermediary institute, leasing company)D) the needed financial information should be available, especially financial statements. According to the mentioned limits, 116 companies were chosen as samples of this research.

6- MODELS AND VARIABLES

Measuring aggressive financial and tax reporting

The following model estimated every ear and company to evaluate financial and tax decisions; and it tries to find an earning management and tax avoidance level. First the level of discretionary accruals was calculated by Modified average residuals of Jones model and then earning management was assessed. Earning involves two parts including cash and accruals. Accruals and following those discretionary accruals are the ones used by most managers in earning management. The mentioned model is as follows:

Model 1

$TACC_{i,t}=\alpha_1(1/TA_{i,t-1})+a_2(\Delta ADJREV_{i,}t/TA_{i,t-1})+a_3(PPE_{i,t}/TA_{i,t-1})+€_{i,t}$

$TACC_{i,t}$, total accruals equal to net income minus operating cash flow of company i in year t

$TA_{i,t-1}$, total assets of company i in year t-1

$ADJREV_{i,t}$, sales changes minus receivable accounts changes of company i in year t

$PPE_{i,t}$, book value of fixed assets of company i in year t

After estimating the model, regression residual is the discretionary accruals

As Desai (2006) stated, calculated tax avoidance is done by following model. in this model, the differencebetweentaxable earning and book profit is estimated on discretionary accruals. The regression residual will be unusual tax avoidance (Koh&Lee, 2014)

Model 2

$BTD_{i,t}=a_1TACC_{i,t}+€_{i,t}$

$BTD_{i,t}$, difference between taxable earning due to books and taxable earning due to assessments

$TACC_{i,t}$, total accruals

In this research, accruals were replaced by discretionary accruals in model (2) for total accruals to improve tax avoidance. Following model was estimated and regression residual is the unusual tax avoidance.

Model 3

$BTD_{i,t}=a_1\Delta INV_{i,t}+a_2\Delta REV_{i,t}+a_3NOL_{i,t}+a_4TLU_{i,t}+€_{i,t}$

$\Delta INV_{i,t}$, changes in investing tangible and intangible assets of company i in year t

$\Delta REV_{i,t}$, changes total sale to last year of company i in year t

$NOL_{i,t}$, operating lose in current year of company i in year t

$TLU_{i,t}$, current year tax of company i in year t

According to the fact that unusual tax avoidance includes earnings management and tax avoidance, following model is estimated to extract earnings management from unusual tax avoidance while model deviation is considered as tax avoidance.

Model 4

$ABTD_{i,t}=a_1DA_{i,t}+€_{i,t}$

$ABTD_{i,t}$, unusual tax avoidance (as mentioned before, it is regression residual in model 2)

$DA_{i,t}$, discretionary accruals

Model 5

$EMTM_{i,t}=\beta_0+\beta_1(LEV1\ or+LEV2)_{i,t}+\beta_2(LEV1\ or+LEV2)\ 2_{i,t}+\beta_3SIZE_{i,t}+\beta_4ROA_{i,t}+\beta_5REV_{i,t}+\beta_6OWN_{i,t}+\beta_7AUD_{i,t}+€_{i,t}$

DEPENDENT VARIABLE OF THE MODEL

$EMTM_{i,t}$, is a qualitative variable. If the company performs aggressive financial and tax reporting, it will be 1 and if not it will be zero. Measuring aggressive financial and tax reportingis done like that , after estimating model (4) and calculating deviation mean of regression model, companies more than mean level have aggressive financial and tax reporting and companies less than mean level don't have aggressive financial and tax reporting.

INDEPENDENT VARIABLE

LEV1, total debtsdivided by total assets that total debts are equal to short- term and long- term debts.

LEV1, total long- term debtsdivided by total assets

Control variables

$SIZE_{i,t}$, natural logarithm of total assets

$ROA_{i,t}$, net income divided by total assets
$REV_{i,t}$, total sales divided by total assets
$OWN_{i,t}$, shares belonged tomajor shareholders divided by total shares of the company . Major shareholder is the one who have more than 5% shares.
$AUD_{i,t}$, type of audit institution. 1 for companies whose audit institution isthe audit organization and zero for companies whose audit institution isother institutes.

Model 6

$$EMTM_{i,t}=\beta_0+\beta_1(LTDEBT1 \text{ or } LTDEBT2)_{i,t}+\beta_2LEV_{i,t}+\beta_3SIZE_{i,t}+\beta_4ROA_{i,t}+\beta_5REV_{i,t}+\beta_6OWN_{i,t}+\beta_7AUD_{i,t}+€_{i,t}$$

The difference between above mentioned model and model 5 is that in model 6 , main independent variable is LEV while in model 7, main independent variable is Ltdebt. LEV is total debts divided by total assets and LTDEBT is defined as total long-term debts divided by total debts (short- term and long- term debts)

Independent variables

LTDEBT1, ratio of long-term debts divided by total debts
LTDEBT1, changes in long-term debts minus changes in short-term debts divided by total debts

Model 7

$$EMTM_{i,t}=\beta_0+\beta_1(DEFICIT1 \text{ or } DEFICIT2)_{i,t}+\beta_2LEV_{i,t}+\beta_3SIZE_{i,t}+\beta_4ROA_{i,t}+\beta_5REV_{i,t}+\beta_6OWN_{i,t}+\beta_7AUD_{i,t}+€_{i,t}$$

The difference between above mentioned model and model 6 is that in model 6 , main independent variable is Ltdebt while in model 8, main independent variable is DEFICIT. LTDEBT is total long-term debts divided by total debts (short- term and long- term debts) and DEFICIT is defined as financing problemsthat was expressed before.

Independent variables

DEFICIT1, investment expenses beside net working capital increase and dividends minus operating cash divided by total assets. Working capital is equal to receivable accounts increase minus properties changes minus receivable accounts changes

DEFICIT2, investment expenses beside net working capital increase and dividends minus operating cash divided by total assets. Working capital is equal to total current assets minus total current debts

Model 8

$$EMTM_{i,t}=\beta_0+\beta_1(ECM \text{ or } ICM)_{i,t}+\beta_2LEV_{i,t}+\beta_3SIZE_{i,t}+\beta_4ROA_{i,t}+\beta_5REV_{i,t}+\beta_6OWN_{i,t}+\beta_7AUD_{i,t}+€_{i,t}$$

Independent variable

ECMi,t, debts and market value of shareholders' equity divided by total assets
ICMi,t, total debts divided by book value of shareholders' equity

7- RESULTS

7-1- descriptive statistics of variables

In this section, the descriptive statistics of variables are given. Descriptive statistics includes mean, median, maximum, minimum and standard deviation of the variables. The results indicate that the mean, median and standard deviation of aggressive financial and tax reporting are about 41%, 1 and 49%, respectively. In addition to, the means of debts ratio were calculated by two indexes, it was 34% shown by LEV1 in index1 and defined as total debts divided by total assets. In index 2, it was 4%,shown by LEV2,and determined as long- term debts divided by total assets. Comparing those states that companies intend to use short- term debts. The return of assets mean was 10%. As it was positive, we can say that companies have positive performance. Ownership concentration was shown by OWN that was measured 73%.

Table 1- descriptive statistics of variables

Statement	Mean	Median	Maximum	Minimum	Standard deviation
Emtm	0.406	1.000	1.000	0.000	0.491
Lev1	0.34	0.295	3.087	0.000	0.2289
Lev2	0.0047	0.001	0.552	0.000	0.089
Lev	0.657	0.644	3.06	0.108	0.026
Size	13.965	13.833	18.739	10.031	1.327
Roa	0.10	0.089	0.985	-0.789	0.140
Rev	0.856	0.765	3.438	0.007	0.489
Own	0.729	0.770	1.000	0.000	0.195
Aud	0.175	0.000	1.000	0.000	0.381
Ltdebt1	0.142	0.0009	1.000	0.000	0.221
Ltdebt2	0.035	0.0074	1.000	-2.633	0.416
Deficit1	-0.0041	-0.057	894	-1.216	0.221
Deficit2	-0.014	-0.024	471	-1/164	0.194
Ecm	0.295	0.261	2.577	0.000	0.250
Icm	0.295	0.261	2.577	0.000	0.250
Number of observations	732	732	732	732	732

7-2- results of testing hypotheses

7-2-1- testing hypothesis 1

Table 2 – statistical results of testing hypothesis 1

Variable	Coefficient	Z test	Significance level
y-intercept	-0.51	-0.92	0.353
Lev1	-1.47	-3.59	* 0.000
Lev2	-4.40	-3.09	* 0.000
Lev1^2	0.87	3.43	* 0.000
Lev2^2	6.95	-1.81	0.06
Size	0.015	0.41	0.67
Roa	-0.02	-0.046	0.96
Rev	-0.02	-0.206	0.83
Own	0.42	0.42	0.092
Aud	-0.19	-0.19	0.14
Statistic and significance level (Lr)	31.047 0.000	Mean of dependent variable variance	0.19

Source: research results

Statistic and level of significance (LR) indicate no problems in estimating the model, so the results of measured model are not false and used for hypotheses testing. The coefficient of debts ratio variable (Lev1), in above table, indicates there is a significant negative relationship between debts ratio and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level.since calculated p-value for the independent variable is less than 0.05, it can be said that H0 is rejected and H1 is accepted; that is there is a significant negative relationship between debts ratio and aggressive financial and tax reporting. In addition to, the second coefficient of debts ratio variable (Lev2), as mentioned in the table, there is a significant negative relationship between debts ratio and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level. since calculated p-value for the independent variable is less than 0.05, it can be said that H0 is rejected and H1 is accepted; that is there is a significant negative relationship between debts ratio and aggressive financial and tax

reporting.

7-2-2- testing hypothesis 2

Table 3- statistical results of testing hypothesis 2

Variable	Coefficient	T test	Significance level
y-intercept	-0.81	-1.38	0.165
Ltdebt1	0.69	4.15	* 0.000
Ltdebt2	0.19	3.708	* 0.000
Lev	0.40	1.77	0.075
Size	0.0003	0.009	0.992
Roa	0.47	1.08	0.277
Rev	-0.09	-0.85	0.393
Own	0.38	1.502	0.133
Aud	-0.23	-1.79	0.072
Statistic and significance level (Lr)	23.605 0.000	Mean of dependent variable variance	0.24

Source: research results

Statistic and level of significance (LR) indicate no problems in estimating the model, so the results of measured model are not false and used for hypotheses testing. The coefficient of financing by long-term debts variable (Ltdebt1) ,in above table, indicates there is a significant positive relationship between financing by long-term debtsand aggressive financial and tax reporting in StockExchange listedcompanies, in 0.05 level . Since calculated p-value for the independent variable is less than 0.05, it can be said that H0 is rejected and H1 is accepted; that is there is a significant positive relationship between financing by long-term debtsand aggressive financial and tax reporting. In addition to, the second coefficient of financing by long-term debtsvariable (Ltdebt2), as mentioned in the table, there is a significant positive relationship between financing by long-term debtsand aggressive financial and tax reporting in StockExchange listedcompanies, in 0.05 level. since calculated p-value for the independent variable is less than 0.05, it can be said that H0 is rejected and H1 is accepted; that is there is a significant positive relationship between financing by long-term debtsand aggressive financial and tax reporting.

7-2-3- testing hypothesis 3

Table 4- statistical results of testing hypothesis 3

Variable	Coefficient	T test	Significance level
y-intercept	-0.73	-1.29	0.197
Deficit1	0.43	3.765	* 0.000
Deficit2	0.63	2.254	* 0.000
Lev	0.27	1.180	0.237
Size	0.012	0.327	0.742
Roa	0.48	1.125	0.261
Rev	-0.159	-1.487	0.136
Own	0.342	1.366	0.171
Aud	-0.264	-2.031	*0.042
Statistic and significance level (Lr)	22.84 0.000	Mean of dependent variable variance	0.23

Source: research results

Statistic and level of significance (LR) indicate no problems in estimating the model, so the results of measured model are not false and used for hypotheses testing. The coefficient of financing problems variable (Deficit1), in above table, indicates there is a significant positive relationship between financing problems and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level. since calculated p-value for the independent variable is less than 0.05, it can be said that H0 is rejected and H1 is accepted; that is there is a significant positive relationship between financing problems and aggressive financial and tax reporting. In addition to, the second coefficient of financing by long-term debts variable (Deficit1), as mentioned in the table, there is a significant positive relationship between financing by long-term debts and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level. since calculated p-value for the independent variable is less than 0.05, it can be said that H0 is rejected and H1 is accepted; that is there is a significant positive relationship between financing problems and aggressive financial and tax reporting.

7-2-4- testing hypothesis 4

Table 5- statistical results of testing hypothesis 4

Variable	Coefficient	T test	Significance level
y-intercept	-1.361	-2.280	*0.022
Ecm	0.18	1.75	0.079
Icm	0.156	0.483	0.629
Lev	0.271	0.751	0.452
Size	0.04	-1.04	0.296
Roa	-0.22	-0.44	0.653
Rev	-0.089	-0.837	0.403
Own	0.361	1.436	0.151
Aud	-0.241	-1.855	0.063
Statistic and significance level (Lr)	41.21 0.000	Mean of dependent variable variance	0.41

Source: research results

Statistic and level of significance (LR) indicate no problems in estimating the model, so the results of measured model are not false and used for hypotheses testing. The coefficient of corporate internal (external) financing variable (Ecm) ,in above table, indicates there is no significant positive relationship between corporate internal (external) financing and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level . since calculated p-value for the independent variable is more than 0.05, it can be said that H0 is accepted and H1 is rejected; that is there is no significant positive relationship between corporate internal (external) financing and aggressive financial and tax reporting. In addition to, the second index of corporate internal (external) financing variable (Icm), as mentioned in the table, there is no significant positive relationship between corporate internal (external) financing and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level. since calculated p-value for the independent variable is more than 0.05, it can be said that H0 is accepted and H1 is rejected; that is there is no significant positive relationship between corporate internal (external) financing and aggressive financial and tax reporting.

8- CONCLUSION

The result of fist testing indicated that the coefficient of debts ratio variable (Lev1) was negative -1.47 and its significance was less than 5%. In this research, the error level is considered 5% and its T-value is more than 2. According to that, there was a significant relationship between debts ratio variable (Lev1) and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level. the coefficient of debts ratio variable (Lev2) was negative 4.40 and its significance was less than 5%; and its T-value is more than 2. According to that, there was a significant relationship between debts ratio variable (Lev2) and aggressive financial and tax

reporting in StockExchange listedcompanies, in 0.05 level.

The result of second testing indicated that the coefficient of financing by long-term debts (Ltdebt1) was 69% and its significance was less than 5%. The T-value is more than 2. According to that, there was a significant relationship between long-term debts (Ltdebt1) and aggressive financial and tax reporting in Stock Exchange listedcompanies, in 0.05 level. the coefficient of long-term debts (Ltdebt2) was positive 19% and its significance was less than 5%; and its T-value is more than 2. According to that, there was a significant relationship between long-term debts (Ltdebt2) and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level.

The result of third testing indicated that the coefficient of financing problems (Deficit1) was positive43% and its significance was less than 5%. The T-value is more than 2. According to that, there was a significant relationship between financing problems (Deficit1) and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level. the coefficient of financing problems (Deficit2) was positive 63% and its significance was less than 5%; and its T-value is more than 2. According to that, there was a significant relationship between long-term debts (Deficit2) and aggressive financial and tax reporting in StockExchange listed companies, in 0.05 level.

The result of forth testing indicated that the coefficient of corporate internal (external) financing (ECM) was positive18% and its significance was more than 5%. The T-value is less than 2. According to that, there was no significant relationship between ECM and aggressive financial and tax reporting in Stock Exchange listedcompanies, in 0.05 level. The coefficient of corporate internal (external) financing (ICM) was positive 15% and its significance was more than 5%; and its T-value is less than 2. According to that, there was no significant relationship between capital market (ICM) and aggressive financial and tax reporting in Stock Exchange listed companies, in 0.05 level.

9- SUGGESTIONS

According to the results of hypotheses testing,present study suggeststhe managers to balance between short –term and long- term debts and perform correctly to reduce tax avoidance and lead investors to pay attention to debts and tax avoidance in companies in order to affect on their economic decisions while controlling their debts for providing assets and increasing production.

As the results of second hypothesis states, it is suggested that auditors should be sensitive to companies' long- term debts. Tax agents check tax programs of the companies precisely in order to clarify them, since there is a positive relationship between financing by long-term debt and aggressive reporting.

As the results of second hypothesis for financing problems it is suggested to Tehran Stock Exchange to settle committees and rank the companies basing on financing problems , through using professional criteria ; they should provide the rankings to investors, tax agents and other people too.

The following subjects are suggested for future researches:

1- in this study, collecting the data was conducted in most industries. As the nature of activities in some industries is unique (like financial intermediary industry), it is suggested to do research on a specific industry.

2- Comparative study ofthis topic in separated samples based on the size of Tehran Stock Exchange listed companies into two small and large groups

3- itis suggested to investigate the effect of other corporate ownership mechanisms like independent auditors, legal control, internal controls etc on aggressive financial reporting, for future researches.

4- It suggested to do the same research in longer duration and use time series regression for future studies.

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