

Evaluation of Information Asymmetry in Financial Reporting: Other Approach, Other Result: New Evidence from Iran

*Mahdi Salehi**

*Vahab Rostami***

Abstract: The results of this survey showed that preparers' perception of accounting qualitative characteristics preferences and information asymmetry areas generally differ from those accounting profession members' and especially auditors are less satisfied than accountants from current financial reporting accordance with qualitative characteristics. This finding in some aspect is in accordance with past finding by Mirshekary and Saudagaran (2005). Moreover, this study revealed that all of the respondents among six compared qualities are satisfied about condition of having sufficient comparability, considering timeliness in provision and reporting of information, same as having sufficient relevance, while they are more complaining of current condition of the lack of adequate disclosure, lack of sufficient reliability besides less considering cost-benefit constraint in issuing new standard and providing accounting information and they believe forging cases are main factors of reducing the level of transparency and crating and wide spreading information asymmetry gap between contributors in those markets.

Keywords: information asymmetry, financial reporting, Iran

JEL Classification: D82

Introduction

The accounting information is considered to be the principal means of communication to the users of that information in capital markets. Corporate financial reporting is a communication of relevant qualitative and quantitative information for decision

* Mahdi Salehi is at Department of Accounting, Ferdowsi University of Mashhad, Mashhad, Iran.

** Vahab Rostami is at Department of Economics and Social Science, Payame Noor University, Tehran, Iran

making by users of such information through financial statements. Management is entrusted with the legal responsibility of preparing and communication such relevant information to the users. However, the management does not independently carry out this task, but it is the joint effort of accounting profession, management, auditors and the government. The accounting researchers have attempted to develop a theory of financial reporting to support the accounting practices by the management or to develop a theory of financial reporting to be followed by the management, the former effort being emphasized by academic researchers. The auditors provide the authenticity of financial statements through their audit opinions. The government regulates financial reporting either through enacting reporting regulations or through laying down general guidelines of financial reporting. These efforts by different institutions go in the name of conceptual framework.

Research Problem

Accounting system as a formal source of collecting, summarizing and reporting of financial information of companies' activities has critical role to provide useful information for different and entitled users in capital market (Alattar and Al-Khater, 2008). By releasing the accounting information, besides the increases of transparency in financial markets, the uncertainty is also reduced and a fair and true view about companies' management activities is made. So, all of contributors in the capital markets are willing and demand its disclosure. Moreover Health as well efficiency of capital markets also is highly depended to presenting that information (Salehi, 2008 a). Thus, various accounting rules regulation bodies in all over the world, such as Financial Accounting Standard Board (FASB) and International Accounting Standard Board (IASB) and so on, seek to handle as well improve this process by developing a special conceptual framework for financial accounting and reporting which is harmonic system of purpose of financial reporting and basic objects.

However, While it is repeatedly mentioned that the only condition to achieve accounting objectives is when its information are truly been understood by users and receivers of those information and final value of accounting information presenting is its using not only its reporting, but also, sometimes it is noted that users of these information couldn't understand the meaning and content of those data, as expected (Mirshekary and Saudagaran, 2005). One of the factors that seem to stress this condition is related to perceptive differences among preparers and receivers of that information about which information is important and relevant and when and in which manner must be prepared and released. In other word, it seems that the perception of users and prepares as well profession bodies of financial information about well employing of the qualitative characteristic of accounting information may

be different. As Mirshekary and Saudagaran (2005) showed that there is a weak level of consensus among bank loan officers, tax officers, and auditor groups about the importance of several information items. However most of the users believe that a delay in publishing annual reports, lack of reliability of the information, and lack of adequate disclosure are the main concerns with corporate financial reports in Iran. This case besides leading to reduction of the level of transparency in markets makes decreases in its efficiency of markets by wide spreading information asymmetry between contributors in those markets, which in the extreme manner it led to market failure (Hendriksen and Berda, 1992).

however if there be such distinct thinking and multi-perception, the main objective of reporting to provide necessary information for correct and rational decision making won't be achieved. In summery the problem is whether there is a gap among three main engaged groups in financial reporting includes, profession members, users and preparers of financial reports upon their perceptions of accounting qualitative characteristics preferences and if it is true, whereby and in which area of financial reporting such gap is huger and deeper.

So, if this perception gap between preparers', users' and profession members can be recognized and handled in each accordance, it is evident that by providing new sort of information that has same perception by all of contributors in market, the financial reporting quality and upon that quality of decision making by investors could be improved.

Research Objective and Necessity

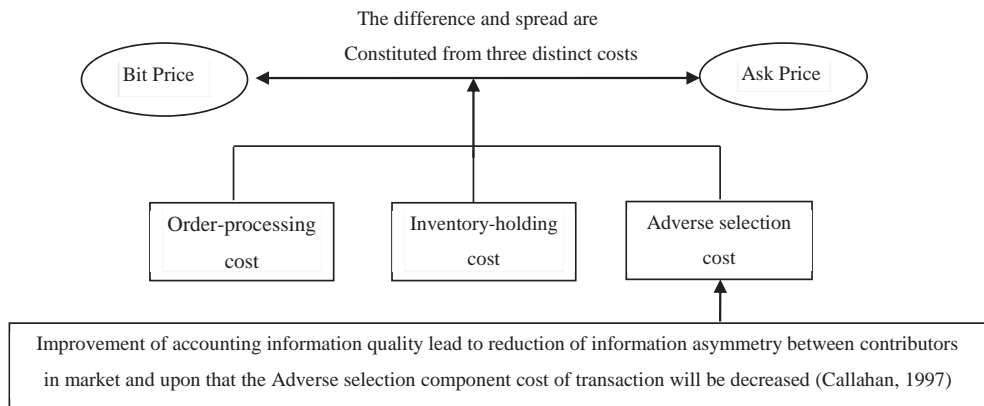
The main objective of this study is with aide of Obaidat (2007) research's result, about using of qualitative characterize of accounting and financial reporting to evaluate and describe information asymmetry areas between profession members, users and preparers of financial reporting, seeks to do similar research in Iran with its special environment and in the end, by facilitating the condition to reduce information asymmetry gap among financial society of our country, enhance the capital market efficiency. However, by knowing that receiving the sound and reliable information which is useful and easily understandable by current users and investors is the only factor for efficient operating of those markets, the importance of awareness of the preparing and releasing such information gets evident.

Literature Review

The case of Information asymmetry in financial reporting and its vast consequences has remarkable attention in recent years. The origin of this concept come

back to 1970 decade when three researchers, whose names are Michael Spence, George Akerlof and Joseph Stiglitz discuss around this case that later was known as information asymmetry theory (Barkley, 2002). Upon this theory they consider a market condition in which sellers have more information about traded commodity than buyers. Certainly in this position traded prices of commodity aren't reflecting it's fair and intrinsic value and depending on level of informative awareness difference are higher or lower than its' fair values. Stoll (1989) and Aitken and Frino (1996) showed that the distance and spread of Bit-Ask price constitutes the main part of transaction costs. George, Kaul and Nimalendran (1991) classified the spread of Bit-Ask price in three distinct costs, which presented in schematic model No. 1. below:

Model No. 1. The component costs Bit-Ask price spread



In similar direction the study of Brockman and Chung revealed that adverse selection cost is most important part of the Bit-Ask price spread in most of the markets regardless of their efficiency (Brockman and Chung, 1998). Especially in the conditions that dealers suppose they are dealing with informed and professional dealers they increase adverse selection cost part to offset probable future losses (Callahan, 1997). Hence, in financial literature, the abnormal Bid-Ask spread are proposed as position of dominance of information asymmetry between buyers and sellers of securities. The level of this spreading is reflecting the level of information asymmetry among dealers as was presented in the below equation:

$$\text{SPREAD} = \frac{\text{AP}-\text{BP}}{\frac{\text{AP}+\text{BP}}{2}} \times 100 \quad (1-2)$$

Which in that:

AP= Ask Price

BP= Bid Price

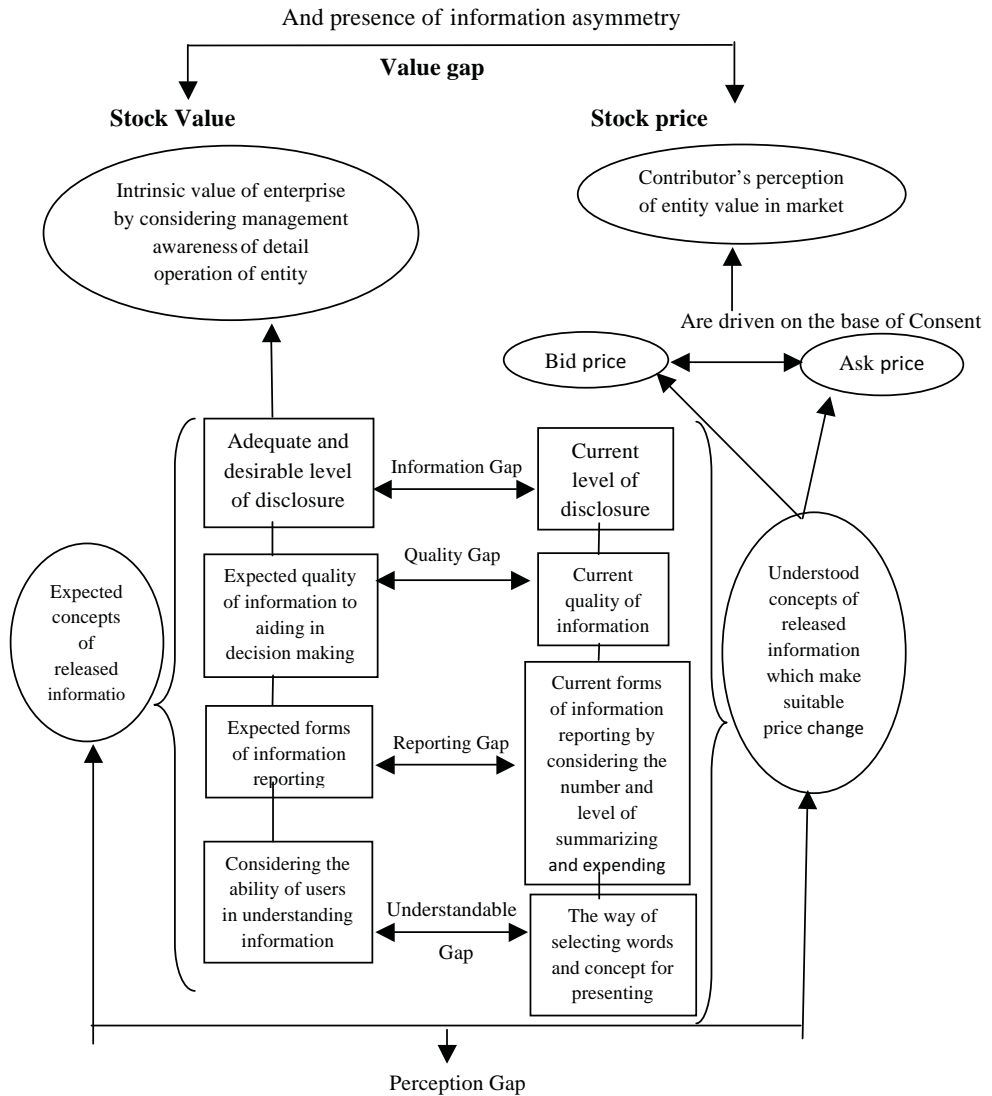
Where the higher the information distributed unequally and with aid of informal ways such as inside trading, leads to the higher the level of information asymmetry and the Bid-Ask spread prices. In this condition, inside information holder deal upon those information and earn abnormal return in others loss, accordingly the result is that the trading prices are made in the base of market reluctance collapse instead of real quality of those securities and those prices are very far from their intrinsic values. In these markets dealers except a few who has access to inside information, losses. This concept is explained in below equation:

$$\text{Index of information asymmetry level} = \text{inherent value} - \text{dealing price} \quad (1-3)$$

Generally we use these two distinct concepts of value and price interchangeable while accept their implying differences. Main difference of these two concepts is driven from that market incompleteness and presence of information asymmetry. However in complete market, stock prices are driven from their intrinsic value and are fitted with it. The analyses of information asymmetry and its origin and effects are showed in detail in Model No. 2.

Upon that schematic model, *information gap* occurs when from the market Contributors' viewpoint main performance data doesn't transferred sufficiently. *Quality gap* describe that information about performance important criteria isn't reliable as expected. Furthermore, accounting profession has long faced the issue of an audit expectation gap, being the gap between the quality of the profession's performance, its objectives and results, and that which the society expects (salehi, 2008 b). Also management must explain its business objectives clearly so investors could be able to determine whether the company has reached to its anticipated goals or not, if management didn't do that, there occur *reporting gap*. However, the *understandable gap* would occur only when management and investors evaluates the data by various method. Finally, accumulated results of all those gaps make appearance of *perception gap* which upon that the desirability of presented information for capital market was differently understood, and finally it led to creation of *value gap*. The value gap refers to the difference between entity market value and management perception of inherent value of entity's stock. The larger the level of mentioned gaps led to the larger level of value gap and upon that huge distance between trading prices of enterprises stocks and its' inherent values.

Model No. 2. The difference are driven from markets incompleteness And presence of information asymmetry



Source: www.PWC.com

Accounting Profession Efforts to Handle and Reduce Information Asymmetry

In order to reduce precede gaps, which in the final leads to information asymmetry reduction, accounting profession has important duty to provide sufficient and in the

timeless manner information. Zhou documented the direct effect of Increasing Accounting Disclosure on reduction of information Asymmetry in China (Zhou, 2004). Hence, accounting profession by creating conceptual framework and presenting qualitative characteristics seeks to take out this duty.

Along with to improve the financial reporting quality and providing useful information to investors, all countries in the worldwide provide necessary regulations and have established professional authorities or bodies which changed their structures and duties over time because of the environmental change. Committee on Accounting Procedure (CAP), Accounting Principles Board (APB) and Financial Accounting Standards Board (FASB), respectively used to handle the accounting standard setting Steerage in the United States for a long time. Operation of forgoing bodies resulted in the increases of transparency in the same way as reduction of information asymmetry level. In 1957, APB as an important standard setting body was willing to provide conceptual postulates for its decisions and it had to work based on standards and concepts simultaneously in order to be able to provide meaningful basic concepts for standards. The motive of FASB of preparing conceptual framework also could be seen in engaged problem that its pervious candidate, APB, experienced. In recent years, this conceptual framework is debated under accounting standards across the world. Higson (2003: 62) presents the issue of conceptual framework in these words: "A conceptual framework could be seen as an attempt to operational the accounting theory. This could be done by either individuals or standard setters. Those who thought about accounting have probably formed some sort of conceptual framework in their own mind". This status continues even to today. Hence Anthony (1983) remarks "Those who comment on proposed accounting standards do so in terms of their personal conceptual frameworks, and the members of the financial accounting standards board vote in accordance with their personal conceptual frameworks".

The objectives of financial reporting have evolved over time. The issue of purpose of information to be disclosed in annual reports was initially recognized by Chambers (1996). For a long time in accounting history, the objective of financial reporting was to provide a mechanism for exercise of investors' control over management coupled with another purpose of provisioning information for investment decision making by focusing on managerial needs as perceived by American Accounting Association (AAA, 1955). Later, the objective was on 'measuring past performance' with an emphasis on profit measurement, which had the management as the target user group. The study by Rice et al, (1973) revealed that 75 percent of the companies considered their overall purpose to be accountability for performance or stewardship. However, in recent years, the objectives of financial reporting have undergone a paradigm shift from exercise of control, past performance analysis and information for investment decision making for management to provisioning of information for decision making by a large body of user groups. As a result, the AICPA (1970) extended objectives

for financial reporting by emphasizing relevant economic information intended to be useful for enlarged user groups.

At present, the Statement No. 4 of APB still dominates financial reporting. However, Sterling (1972) long back indicated that the ultimate objective of financial reporting was to provide useful information. Similarly, Zairi and Letza (1994) conclude that the purpose of the annual report is to convey information that is useful to those who have an active interest in the reporting organization.

The Institute of Chartered Accountants in England and Wales (ICAE & W) has remarked that the objective of corporate reporting is to communicate economic measurements of and information about the resources and performance of the reporting entity, useful to those having a reasonable right to such information (Oza, 1990). Especially formulation of objective of financial reporting is depended on considering conflict interest that there is between contributors in market. Specially, financial statements are driven from interrelated effects of three groups including firms, users and profession. Various accounting professional bodies in the United States, the United Kingdom and Canada have made attempts to formulate the objectives of financial reporting to make accounting information relevant and useful. However, the objectives developed by the Trueblood Committee have stood the test of times and these objectives have guided the standard setting bodies the world over. FASB while preparing its accounting objectives of conceptual framework are widely gained from this report. This Report also presented seven qualitative characteristics, which should form an integral part of financial statement information and now with aide of other characteristics constitute the second main part of FASB's conceptual framework. Those are Relevance and Materiality, Substance rather than Form, Reliability, Freedom from Bias, Comparability, Consistency, and Understandability. These Qualitative characteristic aide FASB and give index for selecting rules and methods of disclosure. However upon that Mirshekary and Saudagaran in 2005 Obaidet in 2007 used and applied selective accounting and financial reporting qualitative characteristics to evaluate and determine quality of financial reporting that their finding was remarkable. Current research is performed in similar direction but use qualitative characteristics as mean to evaluate information asymmetry. Upon the current sustainable areas of financial reporting we gained from six qualitative characteristics which detail of them presented below:

Having sufficient Reliability	Timeliness presenting
Adequate disclosure	Having sufficient Relevance
Take care of cost-benefit	Comparability (sufficient comparable presenting)

Review of Preceding Researches

While academicians and practitioners agree on the importance of qualitative characteristic as an essential element of the financial reporting infrastructure, in compari-

son to huge amount of researches which have been done in various accounting and financial reporting areas, there has been little, if any at all, research in conceptual framework area especially around qualitative characteristic traceable. One potential explanation for this is that it is not easy to measure this case. In a study which was done by contributing of past members of APB and FASB about the level of implying of qualitative characteristic mentioned in SFAC No. 2, only the two qualities includes objectivity and cost-benefit was recognized (Shabahang,1995). In similar study, Hudack and McAllister focused on first issued standard of FASB and showed that board emphasis on relevance and reliability approximately equal. But in those standards which focused on disclosure by notes or other means, compared to reliability more emphasis was given on relevance quality (Hudack and McAllister, 1994). A study conducted by Kennedy et al, (1995) importance of qualitative characteristic from viewpoint of preparers, auditors and users of financial information was investigated. They documented that preparers and users of accounting information as compared to auditors give more emphasis on relevance. In relation of reliability there was no meaningful difference, although the auditors from subset of reliability had more tendencies on objectivity quality. Generally from auditors' viewpoint, comparing to relevance, reliability has much more importance. Mirshekary and Saudagaran (2005) examined the perceptions and characteristics of users of corporate financial statements in Iran. They discuss that users believe that a delay in publishing annual reports, lack of reliability of the information, and lack of adequate disclosure are the main concerns with corporate financial reports in Iran. This finding is true to other developing countries in the Middle East and beyond. ArabSalehi and Bagherpour Velashani (2009) by comparing Legal financial reporting model with those actual reporting model seek to determine financial reporting gap. The results of their study indicate that the Iranian investors as well as legal sources of information (financial, audit and TSE's reports) use informal sources of information in their decision making process. Using the other sources of information suggest that there is a gap between the legal and actual financial reporting models in Iran. This implies that the legal reporting system does not meet the needs of the users. The findings also show that the reporting gap is caused by some main factors including: the inadequate disclosure of non-financial information in the financial statements, inability of the financial statements to provide on time information when we are seeing advances in technology, which facilitates access to more and real time information. Similar research was done by Lee, Ali, and Gloeck (2008) about the financial reports users perceptions about auditors' responsibility for fraud detection in Malaysia. They document that there is an overall worries about fraud in financial information in Malaysia. Moreover, their study revealed there is a vast and deep misperception about auditing objectives in Malaysia and this case arise from respondents have a high expectation more than law and auditing standards are issued about auditing duties for fraud detection and there is a deep gap perception in this areas of accounting in that country. Salehi and Nanjegowda (2006) reported

similar result. Almutairi, Dunn and Skantz (2006) studied the relation between audit quality and information asymmetry. By using data from 38, 187 firm-years in period 1992 to 2001 they documented that information asymmetry is negatively related to the employment of an industry specialist auditor and positively related to audit firm tenure. In the other hand Bhattacharya, Desai and Venkataraman (2009) in a similar study evaluated the relationship between earnings quality and information asymmetry. They documented that poor earnings quality is significantly and incrementally associated with higher information asymmetry. Both innate and discretionary components of earnings quality contribute significantly to information asymmetry and further, poor earnings quality exacerbates information asymmetry around earnings announcements, especially for firms where earnings represent the principal source of information. Baydoun and Willet (2000) evaluated the usefulness of preparing and presenting of balance sheet upon current values and also value added statement in Muslim countries. On the bases of study finding, they suggest that balance sheet upon current values and also value added statements have ability to meet Islamic economic objectives and responsibilities. In the study Sulaiman (2001) showed there is no difference between Muslim respondents and other respondents of perception of financial information usefulness. Howkes, Fowler, and Tan (2003) documented the gap in management accounting areas between accounting academics and practitioners in their study. Other studies should be added in this part.

Research Hypotheses

According to the research problem and objectives of the study three main hypotheses and sub-hypotheses were postulated in the study as following:

- Hypothesis 1: There is a meaningful difference among profession members', users' and preparers' perceptions of accounting qualitative characteristics preferences.
- Sub-hypothesis 1: There is a meaningful difference between users' and preparers' perceptions of accounting qualitative characteristics preferences.
- Sub-hypothesis 2: There is a meaningful difference between auditors' and preparers' perceptions of accounting qualitative characteristics preferences.
- Sub-hypothesis 3: There is a meaningful difference between users' and auditors' perceptions of accounting qualitative characteristics preferences.
- Hypothesis 2: There is a meaningful difference about level of information asymmetry gap in various areas of accounting and financial reporting upon qualitative characteristics components.
- Hypothesis 3: From perception of respondent, investigated components of qualitative characteristics don't have same rank.

Research Methodology and Data Collection

Current study intend with the help of accounting and financial reporting qualitative characteristic evaluate perception gap of qualitative characteristic preferences among profession members, users and preparers of accounting information and upon that determine areas of financial reporting whereby this gap is huger and deeper. In current study we are associated with numerous individual of accounting environment and system. Thus, research method of current study is descriptive and it is also classified as applied research. The level of analysis of this study upon its captured individual is macro and focus of analysis is determining the level of information asymmetry between preparers, users and auditors in different areas of reporting. Finally the entire engaged individuals in collecting, summarizing and reporting as same as using of financial information constitute unit of our analysis. Financial society of Iran constitutes our statistical population and we consider accountants and financial managers as agent of preparers. While stockholders, bank specialist and accounting student and teachers as agent of users, and in the end, auditors constitute agent of profession and our research sample are elected from forgoing groups members. However, the suitable mean for gathering data by considering the research methodology and quality of study objective is questionnaire. We used of a Five-Point Likert Scale questionnaire which has the ratings of “strongly disagree” (1) and “strongly agree” (5) to gathering data. The questionnaire contains two parts namely (A) bio-data and (B) this section includes several questions regarding to the current condition of considering qualitative characteristic in standard setting and information providing process in our country. While to assuring of validity of questionnaire we gained of Delphi and experts advise in the other side, to assure that the questioner has sufficient permanence, the Cranach’s Alpha method was employed. That the results of 0.89 for the Cranach’s Alpha method which is larger than minimum level of 0.7 shows that the questionnaire of study has sufficient reliability.

Results of Analyses

After distributing questionnaires among agents of statistical population, 281 usable questionnaires were collected from the different participants. Table 1. shows the general information of the participants. According to this table, majority of participants, 109 participants have age between 26 to 30 years old (40 per cent); further 63 per cent of participants were male in contrast only 37 per cent of participants were female. Also 233 of participants were B.A students (87 per cent) as against 48 of participants were M.A and PhD students (17 per cent).

Table 1. Demographic information of participants

The age of participants	Frequency	Percentage	Work area	Frequency	Percentage
Under 25	25	9%	Accountant & manager	194	69%
Between 26 to 30	109	40%	Stockholder & analyst	10	4%
Between 31-35	84	30%	Bank specialist	26	10%
Over 35	63	21%	Auditor	35	12%
Experience	Frequency	Percentage	Accounting student	16	5%
Less than 5	98	35%	Field of study	Frequency	Percentage
Between 6-10	106	38%	Accountancy	195	70%
Between 11-15	42	15%	Management	52	18%
More than 15	35	12%	Economic & other	34	12%
Gender of participants	Frequency	Percentage	Educational background	Frequency	Percentage
Male	176	63%	Bachelor	233	83%
Female	105	37%	Master & PhD	48	17%

As mentioned before, in present study three main hypotheses as well several sub-hypotheses were postulated; hereunder the testing of hypothesis 1 is elaborated.

$$\begin{cases} H_0: \mu_1 = \mu_2 = \mu_3 \\ H_1: \text{there is at least a case that differs from other} \end{cases}$$

Where H_1 hypothesis claims that there is a meaningful difference between users', preparers' and profession members' perceptions of accounting qualitative characteristics preferences, μ_1 , μ_2 and μ_3 is the median answers of those three groups respectively. The table 2 summarizes the answers of participants upon each characteristic.

Table 2. Summary answers of participants upon each characteristic

Investigated areas creating information asymmetry compared Groups			Reliability	Timelines	Adequate disclosure	Relevance	Comparability	cost-benefit	Total Information Asymmetry of groups
Providers of accounting information	Accountants & financial managers	Respondents	194	194	194	194	194	194	194
		Mean	2.9323	3.0644	2.7990	3.0322	3.1482	2.9247	2.9835
		SD	0.245	0.343	0.257	0.188	0.319	0.288	0.121
Users of accounting information	Stockholders Creditors and Academic	Respondents	52	52	52	52	52	52	52
		Mean	2.8510	2.9231	2.6490	2.8269	2.9856	2.6962	2.8220
		SD	0.208	0.190	0.248	0.182	.227	0.385	.088
Accounting Profession	Auditors	Respondents	35	35	35	35	35	35	35
		Mean	2.7464	2.8429	2.6000	2.8214	3.0143	2.9029	2.8213
		SD	0.195	0.239	0.221	0.140	.301	0.253	0.093
Total areas of creating Information Asymmetry		Respondents	281	281	281	281	281	281	-----
		Mean	2.8941	3.0107	2.7464	2.9680	3.1014	2.8797	
		SD	0.4841	0.5541	0.50576	0.43453	0.55011	0.5541	

Because of ordinal scale of the study's data, for analyzing this hypothesis we gained from nonparametric statistical methods. The result of the Kruskal-Wallis test showed that P-Value is less than α (P-Value=0.00< α =0.05). So, for those hypotheses the H0 rejected and there is at least a case that it's mean is different from others and there is a meaningful difference among three investigated groups' perceptions about accounting qualitative characteristics preferences. For determining the case or group that their expectation differs from others, we gained from Post Hoc Tests (LSD) which its results are summarized in Table 3 below:

Table 3. Result of the test for determine group that differs from others

compared Groups		Providers of accounting information	Users of accounting information	Accounting Profession
Providers of accounting information	Mean Difference		0.10870	.14439
	Std. Error	-----	0.09007	0.06256
	Sig.		0.178	0.022*
Users of accounting information	Mean Difference			0.06056
	Std. Error	-----	-----	0.10438
	Sig.			0.577
Accounting Profession	Mean Difference			
	Std. Error	-----	-----	-----
	Sig.			

* is showing two cases that have difference in mean answer.

Upon the result of the forging test, the preparers' viewpoint from accounting qualitative characteristics preferences and information asymmetry areas is different from those accounting profession members' and auditors are less satisfied than preparers of level of current financial reporting accordance with qualitative characteristics.

However Second hypothesis tends to determine whether there is a meaningful difference about level of information asymmetry gap in various areas of accounting and financial reporting upon investigated qualitative characteristics components and in other word there is difference about importance of forging six investigated characteristic. Statistical expression of this hypothesis in similar direction to first hypothesis is presented in this way:

$$\begin{cases} H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6 \\ H_1: \text{there is at least a case that differs from other} \end{cases}$$

P-Value in the Kruskal-Wallis test again became less than meaningful level of 0.05 (P-Value=0.00< α =0.05), so for this hypothesis the H0 rejected and the six in-

investigated areas of qualitative characteristic don't have same rank and importance in current condition of financial reporting. However for determine Weight of forgoing qualities and ranking the importance of them we used of Friedman nonparametric test which result of this test are brought below:

$$\left\{ \begin{array}{l} H_0: \text{ six areas creating asymmetry information gap among respondents have} \\ \text{ same rank.} \\ H_1: \text{ six areas creating asymmetry information gap among respondents don't} \\ \text{ have same rank.} \end{array} \right.$$

Upon the result of the Friedman test, the P-Value is less than α (P-Value=0.000< α =0.05), thus H_0 rejected. so there is meaningful difference among six qualities which summarized below:

Table 4. Result of Friedman ranking test

Compared subjects and qualities	Mean rank	Rank result
Reliability	3.74	5
Timeliness	4.30	2
Adequate disclosure	3.17	6
Relevance	4.04	3
Comparability	4.69	1
cost-benefit	3.75	4

While the high mean and rank of investigated qualities show that respondents compared to others have more satisfied of considering those qualitative characteristic in current accounting system, those qualities that have low ranks are describing moderately satisfaction in their considering in providing accounting information. Thus upon the of the second hypothesis test, respondents among compared qualities are more satisfied about condition of having sufficient comparability, considering timeliness in provision and reporting of information, as same as having sufficient relevance, while they are more complaining of current condition of the inadequate disclosure, don't having sufficient reliability besides less considering cost-benefit constraint in issuing new standard and providing accounting information. However they believe pay less attention to three forgoing qualities as main factors creating information asymmetry gap between preparers and users of accounting information where in extremely manner led to reducing market efficiency.

Conclusion

While overall finding of most studied such as Alattar and Al-Khater (2008) shows that the current accounting system as a formal source of financial information about

companies' activities has critical role to provide useful information for different and entitled users in capital market, the result of the other studied also indicate that investors in our country as well as legal sources of information (financial, audit and TSE's reports) use informal sources of information in their decision making process. Hence there is a gap between the legal and actual financial reporting models in Iran and the legal reporting system does not meet the needs of the users (ArabSalehi and Bagherpour Velashani, 2009). For handling this troublesome attitudes which is the case of hypotheses of current study, with aide of Obaidat (2007) research's variables, we used of and focus on qualitative characterize of accounting and financial reporting to evaluate and describe information asymmetry areas among three main engaged groups in financial reporting includes, profession members, users and preparers of financial reports upon their perceptions of accounting qualitative characteristics preferences. The results of this survey showed that preparers' perception of accounting qualitative characteristics preferences and information asymmetry areas generally differ from those accounting profession members' and especially auditors are less satisfied than preparers from current financial reporting accordance with qualitative characteristics. This finding is in accordance with past finding by Mirshekary and Saudagaran (2005) in some aspect which they had showed that there is a weak level of consensus among bank loan officers, tax officers, and auditor groups about the importance of several information items. Moreover, this study revealed that all of the respondents among six compared qualities are satisfied about condition of having sufficient comparability, considering timeliness in provision and reporting of information, same as having sufficient relevance, while they are more complaining of current condition of the lack of adequate disclosure, lack of sufficient reliability besides less considering cost-benefit constraint in issuing new standard and providing accounting information and they believe forging three cases as main factors of reducing the level of transparency and efficiency in markets which makes and wide spread information asymmetry gap between contributors in those markets (Hendriksen and Berda, 1992). This finding is also in accordance with past finding of ArabSalehi and Bagherpour Velashani (2009), but they noted to other qualities such as the inadequate disclosure of non-financial information in the financial statements as factors that make reduction of market efficiency.

While the academic literature is intended foremost to inform the academic community, findings in the academic literature can certainly be relevant to the regulators and professional bodies as well. With due attention to results, information asymmetry is very important attitude for all of contributors in markets; thus there must be regulation to assure financial information of entities are delivered to investors and other users in reliable and on time manner. Hence to enhance disclosure quality and reduce the information asymmetry, some work needs to be done in two distinct areas at the same time. Firstly, it seems that it is necessary to reevaluate the operational objectives and aims of standard setting bodies, at least there needs to be a periodical oversight on activities of this organization to assure they operate along with their

stated goals. Finally while FASB for handling this process prepared and issued conceptual framework which qualitative characteristic is one of the main part of it, but in providing and issuing new standards it seems all of its components do not considered equally and especially it seems is more evident in Iran. Some have justified that for achieving equal and perpetual development in accounting standard setting process, it is probably preferable to follow other countries' experiences, but because of Iran's entities environmental operating differences, it needs some more works to be done in this area. However it needs to handle this problem in near future if we want to achieve to high level of financial transparency goal in our country.

REFERENCES

- AAA (1977). Committee on Concepts and Standards for External Financial Reports, Statement on Accounting Theory and Theory Acceptance, Sarasota, Florida.
- AICPA (1970). APB Statement No.4, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises, Yew York: Paragraph. 40.
- Aitken, M., and A. Frino, (1996), The determinants of market bid-ask spreads on the Australian Stock Exchange: Cross-sectional analysis, *Accounting and Finance* 36 (1), pp. 51-63.
- Alattar, J. M., Al-Khater, K., (2008) "An empirical investigation of users' views on corporate annual reports in Qatar", *International Journal of Commerce and Management*, Vol. 17 ISSN: 4, pp.312 – 325
- Almutairi, A. R., Dunn, Kimberly A., Skantz, Terrance (2006). Audit Quality and Information Asymmetry, School of Accounting, Florida Atlantic University
- Anthony, R.N (1987). We Don't have the Accounting Concepts, We Need, *Harvard Business Review*, Vol.65, No.1, pp.75-83.
- ArabSalehi, M., Bagherpour, M. A., (2009), Financial Reporting Gap in Developing Countries:The Case Study of Iran, *Middle Eastern Finance and Economics*, ISSN: 1450-2889 Issue 3. <http://www.eurojournals.com/MEFE.htm>
- Barkley, R. J., (2002), A Nobel Prize for Asymmetric Information: The Economic Contributions of George Akerlof, Michael Spence, and Joseph Stiglitz, *Review of Political Economy*, James Madison University.
- Baydoun Nabil., and Roger Willet, (2000). Islamic Corporate Reports, *Abacus*, No. 36, pp. 71-90.
- Bhattacharya, Neil., Desai, Hemang & Venkataraman, Kumar (2009). Earnings Quality and Information Asymmetry, Edwin L. Cox School of Business, Southern Methodist University, April
- Brockman, P., and D. Y. Chung, (1999), Bid-ask spread components in an order-driven environment, *The Journal of Financial Research* 12, pp. 227-246.
- Callahan, C. M., C. M. C. Lee, and T. L. Yohn, (1997), Accounting information and bid-ask spread, *Accounting Horizons* 11 (4), pp. 50-60.
- Chambers, R.J., (1996). Ends, Ways, Means, and Conceptual Frameworks, *Abacus*, Vol. 32, No. 2, pp. 119-132.
- George, T. J., G. Kaul, and M. Nimalendran, (1991), Estimation of the bid-ask spread and its components: A new approach, *Review of Financial Studies* 4, pp. 623-656.
- Hawkes, L.C., Fowler M., and Tan L.M. (2003). Management Accounting Education: Is There a Gap Between Academic and Practitioner Perceptions? Massey University, Discussion paper Series 215, June.

- Hendriksen, E. S., Van Berda, M. F., (1991), "Accounting Theory", IRWIN publication, 5th ed.
- Higson Andrew (2003). Corporate Financial Reporting Theory and Practice, SAGE Publication,
- Hudack, Lawrence, and McAllister J. P. (1994). An Investigation of the FASB's Application of its Decision Usefulness Criteria, Accounting Horizon. Sept.
- Kennedy, Dennis, Y. J. Ugrass B. A. Leaby and Madjid Tavana (1995). An Investigation of the Relative Importance Attached to Qualities Characteristics in the SFAC No. 2 Hierarchy, Accounting Inquiries. Feb.
- Lee T., Ali A. and Gloeck M., J. (2008). A study of Auditors' responsibility for fraud detection in Malaysia, Southern African Journal of Accountability and Auditing Research, Vol. 8, pp 27-34
- Mirshekary, S., and Saudagaran, S. M., (2005), Journal of International Accounting, Auditing and Taxation, Volume 14, Issue 1, , Pages 33-54
- Obaidat, Ahmad N. (2007). Accounting Information Qualitative Characteristics Gap: Evidence from Jordan, International Management Review, Vol. 3, No. 2, pp. 26-34
- Oza, H.S (1990). New Perspectives in Corporate Reporting in India in M. Saeed (ed) Corporate Financial Reporting, Anmol Publications,
- Rice C. D., Ford H. C., Williams R. J and Silverman G. W (1973). The Businessman's View of the Purpose of Financial Reporting, Financial Executive Readers Foundation, New York: pp.14-17.
- Salehi Mahdi, (2008 a), Evolution of Accounting and Auditors in Iran, Journal of Audit Practice, Vol. 5, No. 4, pp. 57-74.
- Salehi, Mahdi (2008 b). The Role of Financial Intermediaries in Capital Market, Zagreb International Review of Economic and Business, Vol. 6, No. 1, May, pp.97-109.
- Salehi, Mahdi and K. Nanjegowda (2006). Audit Expectation Gap: the Concept, Journal of Audit Practice, Vol.3, No. 4, pp. 69-73.
- Shabahang, R. (2002), Accounting Theory, Vol. 1, Iran Audit Organization Publication (In Persian).
- Sterling, R.R., (1972). Decision Oriented Financial Accounting, Accounting and Business Research, Summer, pp.198-208.
- Stoll, H. 1989. Inferring the components of the bid-ask spread: Theory and empirical tests. The Journal of Finance 44: 115-134.
- Sulaiman, Maliah (2001). Testing a Model of Islamic Corporate Financial Reports: Some Experimental Evidence, IIUM Journal of Economics and Management, No.2, pp.115-139.
- Zairi, M., and Letza S., (1994), Corporate Reporting, Management Decisions, Vol. 32, No. 2, pp.15-22.
- Zhou, Haiyan, (2004),The Impact of Increased Accounting Disclosure on Information Asymmetry: A Case of Implementing New Auditing Standards in Emerging Markets, Dissertation in accountancy, Temple University ,E-mail: zhaiyan@coba.panam.edu

