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RELATIONSHIP BETWEEN FIRM CHARACTERISTICS AND FINANCIAL RESTATEMENTS

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Abstract *This study investigates the relationship between firm characteristics and financial restatements. A sample consisting of 900 year - firm during the period 2003 to 2011 was studied. The logistic regression was applied to test the hypothesis. In the first method, the significant direction of relationship between the variables was examined. Using the backward method, an optimal model was introduced to predict the financial restatements. To measure the accruals, the modified jones model was used by Dechow et al. The results show a negative and meaningful relationship between the firm size and financial restatements. There is also a positive relationship between the financial restatements with firms' losses in a year before the statement, financing through the floatation and B/P ratio.*

Keyword: *Financial Restatement, Firms Characteristics, Firms size, Financing, Firms Loss*

INTRODUCTION

Problem Statement

Annual adjustments in Iranian accounting standard N.6 has been introduced as important adjustments related to previous years. According to this standards 37 code, annual adjustments are imposed in residual accumulated earnings (loss), restricted to items arisen from change in accounting procedure and adjustment. Additionally, according to codes 40 and 41, in case a change is made in accounting procedure in both current and previous year, annual comparative statistics are reflected in terms of new procedures. In this case, previous year's accumulated adjustments should not be interfered in current year's earning/ loss calculation process, since it is not associated to current year's statistics. Above mentioned adjustments must be considered through repurposing previous years statistics, as a result opening accumulated residual earnings (loss) will be adjusted accordingly. Sometimes published financial statements related to one or more previous periods may contain some errors, leading to some flaws, in turn loss of these financial statements' reliability. To adjust such errors, they must not incorporate current years' profit and losses rather restating previous years statements is best option. As a result, opening accumulated residual earning is adjusted in the same manner. Annual adjustments are reflected in comprehensive profit/ loss as the last item.

RESEARCH OBJECTIVE AND NECESSITIES

In recent years, financial statements' restatement has been growing increasingly so that large number of stock companies in United States have shown much tendency to restating financial statements during recent decade (Wu 2002, Scholes 2008). Number of companies which took actions to restate financial statements was amounted to 300 in 2005, accounting for about 2% of total operating active companies in country. This was enough to receive media, policy makers, and academic's attention to itself. A similar but more outstanding trend was observed in China as compared to United States, however, in spite of huge consequences and side effects of restating financial statements for operating companies in United States, it showed less feedback in China (Xia and Min Wu, 2011). Financial restatement serves as obvious violation of accounting laws, representing low quality of firm's financial statements. Researches revealed that in United States, profit restatement in given firm leads to abrupt losses in stock price and subsequently incurring much cost on that firm (Palmros et al., 2004). Similarly, studies conducted on United States indicated that having been financial restatement, market does not rely on asserted profit to pricing a given company's stock action, as a result stockholders would not trust company's financial statements (Wu, 2002), hence, that firm had to pay much cost for stock (Hribar and Jenkinz, 2004). Kallen et al. (2002) pointed out that market reacts to financial reporting restatements.

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Following are some probable reasons for negative markets reaction to financial reporting restatements: 1- restatements carry new information and news on future expected cash flow losses to market. 2- it represents poor accounting reports and information system and indicates emergence of management issues in firm. 3- it is a sign of management opportunism behaviour, suggesting that previous reported profits under some intended or inadvertent errors or unaccepted approach adoptions must be adjusted. Researchers have developed five methods on reactions to factor affecting financial restatement by which damages imposed on management and companies' credit and reputation can be alleviated to large extent. In other words, researchers believed that applying substantial correct solution might help them to control manager's purposes and financial statement distortion (Gertesen et al., 2005). Shariatpanahi (2010) classified developed approaches on reaction to financial restatement as following: issues nature verification, error and fault acceptance, free communications, firm authorization, respect to norms.

RESEARCH HISTORY

Empirical History

Nikbakht et al. (2011) in a research titled "Evaluation of effective factors pattern on financial reporting restatements" by testing hypothesis, concluded that financial restatement in Iranian stock market shows ascending trend since 2004 and profitability, financial leverage, management period, management change, accountant replacement, and accounting institution size affect financial restatement. Safarzadeh (2010) in his research titled "Financial proportion ability to explore cheating in financial reports" after testing some hypotheses, concluded that some proportions able to explore fraudulent financial reports, include current ratio, inflow capital to total asset, total cost /assets, accumulated income/ total asset, sale / total asset, net earnings/ total asset, net earnings/ sale, operational cost/ sale, operational profit/ sale, net earnings/ stocks, owners' salary. Kordestani et al. (2010) in their research "Empirical testing annual adjustments importance in stock market" concluded that average absolute value for annual adjustments is more than importance leverage in previous statements. In other words, firm's average absolute value for annual adjustments is substantial. Sajadi (2004), while conducting a research "Relationship between annual adjusting of companies statements to stock price, size and life span of companies adopted by Tehran stock exchange", pointed out that the bigger a firm, the less annual adjustments. On the other hand, Sajadi did not find any significant correlation between firm's age and financial restatement in his research.

Palmros et al. (2004) confirmed the similar market response to financial restatement. Lu et al. (2008) found that those financial restatement which affect business unit profitability, also impose more side effects on various investors and it is more likely to embark on legal claims than others. Richardson et al. (2002) reported that stock market make some stringent accounting policies under firm's financial reporting restatements. In addition, they obtained some data on some items used as key index for profit manipulation, resulting in financial reporting restatements. Griffin (2003) carried out a research on internal exchange pattern in companies' financial restatement and results indicated that one of the main manager purpose to improve their earning is internal exchange profit. Agrawal and Chadha (2004) pointed out that presence of independent managers acquainted to financial affair accounting in accounting committee, is negatively associated to financial reporting restatements. Xia et al. (2011) in their study on financial statements reports on "China: investigation of financial reporting restatements" found that accounting information paly vital role in analyzing investors, however, insufficient dissemination results in inefficiencies in China's stock market. In case there are wide varieties of reasons for financial reporting restatements, they are not weighted; hence market response is not proportionate to risks. Desai et al. (2006) while doing their study on "Earning restatement and management changes" tested some hypotheses and found significant correlation between financial restatement and replacing firm's managers about 12 months before and after restatements. Lin et al. (2004) carried out a research in title "Using neurotic fuzzy system to predict risks from earning restatements" developed a restatements prediction pattern by considering variables of accountant fees, accountant institution size, number of companies accounting years by an accountant, operational cash flow/ total asset, total items/ total asset, previous year's loss reports, market value/ book value, total debts/ total earning, increased funds or debts stock reports in previous financial period and company's size.

CONCEPTUAL MODEL

$$Restatement=\alpha + \beta1Age + \beta2Loss + \beta3Loss\text{-}ST + \beta4RSI + \beta5LEV + \beta6E/P + \beta7B/P + \beta8EG + \beta9UI + \beta10Size + ei$$

Notes:

E/P: Fiscal Operating Earnings/ Market Capitalization.

B/P: Book Value/ Market Capitalization.

EG: Earnings Growth, (Net Incomet_1 _ Net Incomet_2)/ Total Assets.

LEV: Leverage, Total Debt/ Stockholders' Equity.

UI: Below-the-line items, (income from investment + non-operating income + subsidies)/ Total Assets.

Age: The number of years firms have been listed on the stock exchange.

LOSS: Dummy variable. LOSS = 1 when there was a loss in year t-1, and 0 otherwise.

LOSS_ST: Dummy variable. LOSS_ST = 1 when there was a loss in both years t-1 and t-2, and 0 otherwise.

RSI: Dummy variable. RSI = 1 if rights or secondary issuance occurred in t-1, t-2, or t-3, and 0 otherwise.

Statistical significance at the 10% level for two-tailed tests.

** Statistical significance at the 5% level for two-tailed tests.

*** Statistical significance at the 1% level for two-tailed tests.

In the present research, combined data approach was used in respect to data type and available statistical analysis methods. Data used in statistical analysis consisted of financial data for 100 companies (17 industries) during 2003 to 2011 and logistic linear regression model was used to test hypothesis.

RESEARCH METHODOLOGY

The present study is applied research. In other words it is semi-empirical research as per post-event type (via post data). Sampling method is screening type. Among accepted companies in Tehran stock exchange, those complied with following conditions were selected as sample: 1- availability of whole studied companies information and data in research interval, 2- companies do not have fiscal years conversion during research, 3- 19 March is end point of fiscal year in companies of interest, 4- stakeholders companies, banks, investments and holding firms are eliminated, 5- their maximum deal cease is six month. Statistics on financial statements and notes on companies accepted in Tehran stock exchange were collected from some databases in Tehran stock exchange organization (like stock exchange library and using software Rahavad Novin etc.) to data analysis. Having been classified, data were entered into excel spreadsheets. In spreadsheet, first data were distinguished in year order and then converted as data panel for more facilitation in running statistical software. Next, results were entered to software AVIEWS using logistic regression model for integrated data to find hypothesis answers and subsequently data and statistical test analysis were conducted. In the present research, combined data approach was used in respect to data type and available statistical analysis methods. Data used in statically analysis consisted of financial data for 100 companies (17 industries) during 2003 to 2011 and logistic linear regression model was used to test hypothesis.

RESEARCH HYPOTHESIS

1. investigates the meaningful relationship between the firm performance history and financial restatements.

1.1. investigates the meaningful relationship between the firm age and financial restatements.

1.2. investigates the meaningful relationship between the firm size and financial restatements.

1.3. investigates the meaningful relationship between the firm loss in year t-1 and financial restatements.

1.4. investigates the meaningful relationship between the firm loss in year t-1 and in year t-2 and financial restatements.

2. investigates the meaningful relationship between the firm financing and financial restatements.

2.1. investigates the meaningful relationship between the firm financing through the floatation and financial restatements.

2.2. investigates the meaningful relationship between the firm financing through the lending and financial restatements.

3. investigates the meaningful relationship between the firm growth and financial restatements.

3.1. investigates the meaningful relationship between the E/P ratio and financial restatements.

3.2. investigates the meaningful relationship between the B/P ratio and financial restatements.

3.3. investigates the meaningful relationship between the earning growth and financial restatements.

3.4. investigates the meaningful relationship between the potential profitability and financial restatements.

RESEARCH FINDINGS

Descriptive Statistic

Table 1 shows that the companies with financial restatement are in average age 36.97, while it is 37.19 for companies with no financial restatement. Standard deviation for companies with and without financial restatement was 9.73 and 9.89 respectively, suggesting that there are more distributed around mean for those companies with financial restatement. Age skewness for companies with financial restatement and those having no restatements were -0.29 and -0.11 respectively, implying that skewness tends to left. Age kurtosis for companies with financial restatement and those having no restatement was -0.75 and -0.79 respectively, indicating that data distribution in those offered financial restatement closes to normal distribution. Average size for companies with financial restatement and those having no restatement was 19.29 and 19.60 respectively. Standard deviation for companies with financial restatement and those having no restatement was 1.61 and 1.49, suggesting data are widely distributed around average for companies with no financial restatement. Firm's size skewness for financial restatement and no financial restatement was 0.44

Table 1: Descriptive Statistic

Restatement	Variables	valid	Mean	Median	Std. Deviation	Skewness	kurtosis	Min	Max
0	Age	338	37/19	37/00	9/89	-0/11	-0/79	14/00	59/00
	Size	338	19/60	19/40	1/49	0/36	-0/47	16/39	23/86
	LEV	338	2/58	1/92	2/20	1/47	2/94	-1/89	12/31
	E/P	338	0/16	0/16	0/72	0/34	7/30	-2/53	3/95
	B/P	338	0/24	-0/03	1/85	0/04	3/01	-7/69	6/41
	EG	338	0/01	0/01	0/07	0/92	5/37	-0/23	0/38
	UI	338	0/02	0/01	0/03	2/98	15/62	-0/08	0/26
1	Age	562	36/97	39/00	9/73	-0/29	-0/75	15/00	58/00
	Size	562	19/29	19/11	1/61	0/44	-0/04	15/62	23/73
	LEV	562	2/83	2/04	2/66	2/39	7/19	-1/39	16/70
	E/P	562	0/05	0/15	0/95	-0/69	9/31	-4/67	4/65
	B/P	562	0/69	0/08	2/66	3/16	17/14	-5/68	18/88
	EG	562	0/01	0/01	0/06	0/54	5/17	-0/19	0/38
	UI	562	0/02	0/01	0/03	1/95	8/65	-0/12	0/20

and 0.36 respectively. It means that skewness tends to right. For companies with financial restatement and those with no restatement was -0.04 and -0.47 respectively, showing that data distribution for formers comply with normal distribution. Leverage mean for companies with financial and no financial restatement is 2.83 and 2.58 respectively. Standard deviation for companies with financial and no financial restatements was 2.66 and 2.20 respectively, suggesting that b data are distributed around mean for later ones. Leverage skewness for companies with financial and no financial restatements was 2.39 and 1.47 respectively, suggesting that skewness tends to right. Kurtosis for companies with financial and no financial restatements was estimated about 7.19 and 2.94, indicating that in latter ones, data distribution follows normal distribution pattern. E/P ratio mean for companies with financial and no financial restatements was calculated about 0.05 and 0.16 respectively. Standard deviation in companies with financial and no financial restatements was 0.95 and 0.72 respectively, indicating that data in latter are distributed around mean. E/P ratio skewenss for companies with financial and no financial restatements was -.69 and 0.34, indicating left and right tendencies respectively. Those companies with financial restatements and those with no financial restatements showed kurtosis about 9.31 and 7.30 respectively, suggesting that data distribution follow normal in latter. Those companies with financial restatements and those with no financial restatements showed B/P ratio mean about 0.69 and 0.24 respectively. Standard deviation for companies with financial and no financial restatements was obtained about 2.66 and 1.85 respectively, implying that data are much distributed around mean in those with no financial reporting restatements. B/P ratio skewness in companies with financial and no financial restatements was 3.16 and 0.04 respectively indicting skewness tends to right. Kurtosis in companies with financial and no financial restatements was 17.14 and 3.01 respectively indicating that data distribution follows normal in latter. Profit mean in companies with financial and no financial restatements was 0.01 and 0.01 respectively. Standard deviation in companies with financial and no financial restatements was 0.06 and 0.6 respectively. It means that data are much more concentrated around mean in the former. Earning skewness in companies with financial and no financial restatements was 0.54 and 0.92 respectively, suggesting skewness tendency to right. Kurtosis in companies with financial and no financial restatements was 5.17 and 5.37 respectively, suggesting that former's data distribution follows normal pattern. Profitability mean for companies with financial and no financial restatements was measured about 0.02 and 0.02 respectively. Standard deviation for companies with financial and no financial restatements was measured about 0.03 and 0.03 respectively, suggesting that in both groups, data are distributed similarly around mean. Profitability skewness for companies with financial and no financial restatements was measured about 1.95 and 2.98 respectively, indicating right skewness. Kurtosis for companies with financial and no financial restatements was obtained about 8.65 and 15.62 respectively, showing that data distribution in the former follows normal distribution pattern.

Logistic Regression, Forward Method

In Table 2, models likelihood ratio value equals to 0.004, since it is less than 0.05, hence null hypothesis is rejected in probability confidence level of 95%. So assumed model is

significant, it means that dependent variable is affected by at least one variable (model is linear).

Likelihood value for variable companies' age equals 0.507 and since it is less than 0.05, so, alternative hypothesis is rejected in probability level of 95%, suggesting no significant relation between this variable and financial reporting restatement. Probability value for companies' size equals 0.007. Since it is less than 0.05 so, null hypothesis is rejected in confidence level of 95%. Also, given to negative coefficient of size variable, it can be concluded that size is negatively and significantly correlated to financial restatements. Probability value for variable companies' loss one year before financial restatements equals to 0.028 and since it is less than 0.05, so null hypothesis is rejected at confidence level of 95%. In addition, given to positive coefficient sign of this variable, it can be concluded that it is positively and significantly related to financial restatements. Probability value for variable companies' loss two years before financial restatements equals to 0.503 and since it is more than 0.05, so alternative hypothesis is rejected at confidence level of 95%, suggesting no significant relation to financial restatements. Probability value for variable "financial supply through stock sharing" equals to 0.014, since it is less than 0.05, so null hypothesis is rejected at confidence level of 95%. Additionally, given to positive coefficient of this variable, it can be concluded that it is correlated to financial restatements positively. Restatements likelihood vale for variable "leverage" equals to 0.261 and since it is more than 0.05, so alternative hypothesis is rejected in confidence level of 95%, so it is not correlated to financial restatements significantly. Probability value for variable "operational profit to market value ratio" equals to 0.675 and sine it is much than 0.05, so alternative hypothesis is rejected at confidence level of 95%, suggesting no significant relationship between this and financial restatements. Probability value for variable "book to market value ratio" equals to 0.046 and since it is less than 0.05, so null hypothesis is rejected in confidence level of 95%. Additionally, given to positive coefficient of this variable, it can be concluded that it is correlated to financial restatements positively. Probability value for variable "profit accumulation" equals to 0.379 and it is less than 0.05, so, alternative hypothesis is rejected at confidence level of 95%, suggesting no significant relationship between it and financial restatements. Probability value for profitability equals to 0.554 and it is less than 0, 05 value, so, alternative hypothesis is rejected at confidence level of 95%, suggesting no significant relationship between this variable and financial restatements.

Logistic Regression, Backward Method

In the present research, backward method was used to develop suitable model. As per this method, first the most insignificant variable (that with highest likelihood) is removed from model followed by these condign significant one. This trend continues until all insignificant variables are removed from model and just significant variables are remained. Mandatory model was used to manifest all variables in general pattern. As it was noted, some variables did not significant in model. Table 3 shows fitting results calculation and to summarize, the last panel is illustrated.

Table 2: Logistic Regression, Forward Method

Variables	Coefficients	Z	SD	Likelihood
Model	2/967	3/072	0/966	0/004
Age	-0/005	-0/664	0/008	0/507
Size	-0/132	-2/686	0/049	0/007
LOSS	0/360	2/205	0/164	0/028
LOSS-ST	-0/020	-0/122	0/163	0/503
RSI	0/486	2/464	0/197	0/014
LEV	0/032	1/125	0/028	0/261
E/P	0/054	0/419	0/130	0/675
B/P	0/096	1/998	0/048	0/046
EG	1/116	0/881	1/267	0/379
UI	1/489	0/591	2/517	0/554

Optimum output model from backwardregression method is as following:

$$E(\frac{y_i}{n_i}) = \frac{Exp(2/795-0/129Size+0/32LOSS+0/5RSI+0/078B/P)}{1+Exp(2/795-0/129Size+0/32LOSS+0/5RSI+0/078B/P)}$$

After nine steps of testing and elimination of variables, in the last table, variables of size, loss, financial supply through stock share, and book to market value ratio, all of which are significant, were remained. These variables have been used in model derived from backward test. As Table 3 illustrated, coefficients shown in the table are as variables coefficients. Coefficient of "size" variable equals 0.129 and is negative. It represents that larger the firm size, the less likelihood financial restatements about 0.129 times. Coefficient of "loss" variable is 0.324 and it is positive. It suggests that as firm's loss intensifies, probability for financial restatements will increase about 0.324 times. Variable "financial supply coefficient" equals 0.5000 and it is positive. It suggests that the more financial supply through stock share, the more probable increase in financial restatements about 0.500 accordingly. Coefficient for "book value to market value ratio" is 0.078 and is negative. As book value to market value ratio increases, it is more probable to decrease financial restatements to 0.078 times.

CONCLUSION

One of the main factors affecting firm's financial structure is firm size. Firm size is a general variable and in various

Table 3: Logistic Regression, Backward Method

Dependent Variable: Restatement				
Method: ML - Binary Logit (Quadratic hill climbing)				
Date: 03/17/13 Time: 15:23				
Sample: 1 900				
Included observations: 900				
Convergence achieved after 5 iterations				
QML (Huber/White) standard errors & covariance				
Prob.	**z-Statistic**	**Std. Error**	**Coefficient**	**Variable**
0.002	3.135	0.892	2.795	C
0.005	-2.825	0.046	-0.129	Size
0.031	2.163	0.150	0.324	LOSS
0.011	2.558	0.196	0.500	RSI
0.009	2.614	0.030	0.078	B/P
0.624	Mean dependent var		0.021	McFadden R-squared
0.479	S.E. of regression		0.485	S.D. dependent var
205.550	Sum squared resid		1.307	Akaike info criterion
-583.263	Log likelihood		1.334	Schwarz criterion
-595.662	Restr. log likelihood		1.317	Hannan-Quinn criter.
-0.648	Avg. log likelihood		24.797	LR statistic
			0.000	Prob(LR statistic)
900	Total obs		338	Obs with Dep=0
			562	Obs with Dep=1

studies represents different aspects of firm. Firm size may represent leverage. Operational and financial leverages serve as a mean to achieve more profit. Firm size may represent competitive superiority of companies. Since large contribution of market needs more production and sale, hence enough asset and bigger size may help firm in more production and saving money on marketing operations, in turn providing competitive advantages. Firm size may indicate management potential and quality of accounting projects. Firm size development denotes on powerful management and has great deal of contribution in improving economic resources using efficient accounting projects. Firm size represents in formation efficiency as well. Naturally, analyzers and investors pay much more attention to bigger companies, that's why accounting information are more efficient in big companies. At the same time, firm size may denote on general risk. Higher financial power leads in less general risk, since bigger companies expose much more general immunity and are more renowned because finance analyzers emphasizes on them substantially (Xia, 2006). Kim and Liu (2003), in a research in title "Profit management and firm size association", observed that firm size plays differential role in earning management. On one hand, small companies involve in earning management to avoid loss reports and on the other, medium and big companies mange earning to avoid loss statements. Results from the present research indicated that firm size and financial restatements correlated negatively. The bigger firms, the more subjective firms approach and instructions. Sajadi (2004) pointed out that bigger companies have much more facilities and intellectual asset. So, given to companies facilities and experiences, more reasonable specification of organisational structure, more strong control and specific strategies, goals and plans lessen abuse and cheating probability as well as accounting errors.

One of the main factors motivating companies to financial restatements is earning management (earning over estimation or loss under estimation). According to hypothesis test, after carrying out logistic regression test, it was found positive significant correlation between a firm's losses one year before financial and financial restatements. Most researchers have focused on two concepts of earning

management: 1- accruals management and 2- real earning management. While accruals management denotes to earning manipulation through some accounting principles adopted by accountants, real earning management attempts to change time and measure of business unit operations. Kim and Liu (2003) found that firm size plays differential role in earning management. On one hand, small companies involve in earning management to avoid loss reports and on the other, medium and big companies mange aggressive earning to avoid loss statements. As it was observed from hypothesis tests, firm size and financial restatements are correlated negatively. It can be inferred that those companies considered as small and had experienced loss at end of fiscal year, presumably will have financial restatements in coming years.

Economical institutions and corporations in particular the industrial ones, need huge asset to continue their operations. They depend on financial markets to meet their needs. Companies tend to financial supply using two approaches: 1- borrowing, 2- stock share. Some studies dealt with financial supply methods in fifty developed and developing countries. Results indicated that companies located at developing countries provide their financial requirements from abroad resources mainly through sharing new stocks. Those companies located at developed countries secure their financial demands from internal resources mainly through borrowing. Both financial securements methods were evaluated using logistic regression of financial restatements in the present study. Results of test suggested positive and significant relation between financial secure via stock sharing and financial restatements. Zhang (2006) reported that those having bond stocks (to financing), react negatively to financial restatements, call for much more interest rate and short term repayment for market bonds.

Also, Graham et al. (2008) found that those companies which had financial restatements, while getting reliabilities, encounter to much more interest rate, short term debt repayment, more gages and limitations. Most researchers conducted on fraudulent in financial statements (restatements to manipulate financial statements are found to be fraudulency), and have focused on financial ratios advantages as fraudulent predictors in financial reporting. Spathis (2002), using logistic regression observed that financial ratios have higher potential to explore fraudulent financial statements. Similarly, Kaminsky et al. (2004) observed that financial ratios have interpreting power to shed light of financial statements.

Kutsias et al. (2006), when using machinery learning methods, found that to explore some financial reporting fraudulent, financial ratios can be promising. For this, logistic regression was used to evaluate relationship between B/P and E/P ratios and financial restatements. Result of test showed positive significant correlation between B/P and E/P ratios and financial restatements. In other words, those companies with higher B/P ratio, had more financialrestatements.

Table 4: Summary of Results

Hypothesis	Results
1	Is confirmed
1.1	Lack of relationship
1.2	Significant and negative
1.3	Significant and positive
1.4	Lack of relationship
2	Is confirmed
2.1	Significant and positive
2.2	Lack of relationship
3	Is confirmed
3.1	Lack of relationship
3.2	Significant and positive
3.3	Lack of relationship
3.4	Lack of relationship

RECOMMENDATIONS

1. It suggests that users using financial statements during making some decision which depend on companies accounts, should take care that small companies are more prone to offer financial restatement.
2. Restatements users should consider losses in financial accounts while making some decision depending on firm's statements. Since study's results showed that those companies with loss from previous year, are prone to restatements in coming year.
3. While making some decision depending on companies statements, it is recommended to consider company's annul adjustment's nature and amount during selecting stock basket.

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