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Research Paper

Empirical Investigating of the Impact of Comparability and Readability of the Financial Statements on Avoiding of the Companies Shares' Incorrect Pricing[1]

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INTRODUCTION

The capital market is a structured and organized platform where companies seeking capital can offer their securities to investors, thereby obtaining the funds they need. In this context, the capital market must determine a price for these securities. The stock price of a company is typically influenced by various factors, the most significant being the company's profitability, future profitability expectations, the country's economic conditions, and investor decisions. Incorrect pricing of company shares in the capital market can lead to either overvaluation or undervaluation. A lack of clear, accurate, and timely information is a common cause behind stock misevaluation. Overvaluation tends to be more prevalent and persistent than undervaluation because, when a company's stock value

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rises, managers often stand to gain various benefits that they are reluctant to lose. One key aspect of improving the quality of financial statements is enhancing the readability and comparability of financial information. High readability of financial statements ensures that investors view the information as reliable, as it is easier for them to comprehend and make stable decisions. Previous studies have shown that investors are more likely to invest in companies with clear, legible, and accurate financial statements. From an economic theory perspective, if a company's financial statements lack readability, investors struggle to evaluate the information effectively. This often leads them to seek additional information elsewhere, which can disrupt their decision-making process. Among the benefits of financial information comparability are reduced information processing costs, decreased uncertainty about the credibility of a company's information, minimized stock price fluctuations, and lower debt costs. Therefore, the ability to compare financial information gives investors confidence in the quality of the data, fostering stability in their decision-making process.

HYPOTHESES

H1: There is a negative relationship between the readability of financial statements and incorrect stock pricing.

H2: There is a negative relationship between the comparability of accounting information and incorrect stock pricing.

H3: The interaction between the comparability of accounting information and the readability of financial statements leads to a reduction in incorrect stock pricing.

METHOD

The current research is applied in nature and, from a methodological standpoint, it is of a causal (post-event) correlation type. The statistical population under investigation includes all companies listed on the Tehran Stock Exchange, with the period of study spanning from 2012 to 2021. A systematic elimination method was employed to select the sample, resulting in 127 companies being chosen for analysis. Data analysis was conducted using the combined data method, with a panel data approach, and EViews 12 software was utilized to test the hypotheses.

RESULTS

The results of the hypothesis tests indicated that the readability of financial statements and the comparability of accounting information have an inverse relationship with incorrect stock pricing. As these two factors improve, incorrect stock pricing decreases. Furthermore, the interaction between these two factors has a negative effect on incorrect stock pricing. With the simultaneous improvement of both readability and comparability of financial statements, incorrect pricing is further reduced.

DISCUSSION AND CONCLUSTON

The study of factors influencing incorrect stock pricing is of great importance, as previous research highlights that investors base their decisions on the information disclosed by companies through financial statements. The more transparent, reliable, and timely this information is, the more it reduces information asymmetry and ensures the proper distribution of data between both parties in the transaction. This, in turn, leads to a more reasonable stock pricing process. In an ideal, efficient market, it is expected that stock prices will not deviate significantly from their intrinsic value, and any discrepancies will be naturally corrected over time. One legal method managers may use to obscure information is by making financial reports complex or ambiguous in tone. This hinders investors' ability to make informed decisions, as they face challenges in interpreting the information and determining the appropriate volume and price in their transactions. On the other hand, the readability of financial statements is a crucial factor that allows investors to make full use of the financial data provided in line with their investment goals. The results of this research show that improving the readability of financial statements reduces the likelihood of incorrect stock pricing. Access to clear and transparent information ensures that stock prices are aligned closely with their intrinsic values. In the conceptual framework of Iranian reporting, comparability is one of the main qualitative characteristics that enhances the usefulness of financial information. The findings indicate that improving the comparability of accounting information significantly reduces incorrect stock pricing. This is because high-quality, comparable information allows investors to make better-informed decisions. Moreover, the results suggest that comparability plays a more significant role in reducing incorrect pricing than the readability of financial statements. This may be attributed to the intrinsic nature of comparability, which inherently delivers more understandable information to the market. In fact, readability can be seen as embedded within comparability; when financial information is comparable, it also tends to be more readable. The interaction of these two qualitative factors can greatly influence the reduction of incorrect pricing in an efficient market.

Keywords: Comparability of Financial Information, Stock Incorrect Pricing, Readability of Financial Statements, Quality of Financial Information.
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