

A Study on Effects of Fixed Assets Revaluation in the Inflationary Conditions on the Stock Prices in Tehran Stock Exchange (TSE)

Mojtaba Moradpour¹, Meirza Mohammadi², Leyla Ghassabmaher³

¹Department of accounting, East Ilam, Branch, Islamic Azad University, East Ilam, Iran

²Department of accounting, East Mehran Branch, Islamic Azad University, East Mehran, Iran

³Department of accounting, Gogan Branch, Islamic Azad University, Gogan, Iran

ABSTRACT

In this study has been investigated the effects of fixed assets revaluation in the inflationary conditions on the stock prices in Tehran stock exchange (TSE). First 110 firms were selected between "2002-2007". Then, the method of "mesa comparisons" was used in the context of cross-sectional analysis used to cross-sectional analysis.

The differences Between assets historical value and market value in inflationary condition Cause some problems and must company assets value, which represent in stock price, and have been Revised and corrected according to inflation Rate. Calculated depreciation in historical cost structure is used to calculate the product cost is less than Real amount and cause over state financial statement. It is necessary to create a suitable method in historical cost structure framework perfectly clear through that Accounting information, on base market value, and related with Economical Decision is proper. This is the Reappraise of fixed assets method. The goal of this Research, while useful for Reappraise of fixed assets, to be adjust to finance statement as a new step to present the growth of Executive backgrounds and accounting theoretic.

Based on this subject six hypotheses has been considered and analyzed by chi-square(X^2), P-value methods and Z test; also, for adjustment of financial statement use of reporting models (CPP and CCA).

The results indicate that the fixed assets revaluation in the inflationary conditions deducted income of companies and this deduction is from to be increased cost of production and as the result of increase of depreciation.

KEY WORDS: Historical cost, fixed assets, revaluation, inflationary conditions and stock prices.

INTRODUCTION

With regard to this fact that cost value, for Excreting inflationary and no inflationary Policies by governments and other social- economy cal factors ' is changing all over the world and specially since these changes have now days been remarkable as well as they are going to drop cost value and purchase power ' there fore ' cost values should be considered in order to show assets status ' debts' establishments supplies and their performance . Other wise, evaluating financial statements based on historical values won't lead to an absolutely fair criterion to make a decision on financial statements.

It doesn't seem necessary to consider attentively cost values in our or other countries for regulating establishments' financial statements, while because of the importance of the matter it needs to point. The target of approved principles and accounting standards is to indicate virtual regulated financial reports ' that is ' important aspects of trade establishments life time and their changes ' as it has been or established ' should be opened to users analogically and in value able by dependant genius people ' that is in conditions by which the most important reporting establishments utilize other assets on variant ways to collect their properties (public share companies), and the economical status of these companies because of other reasons has social effects . Measurements comparability includes comparison among variant companies at the same time as well as indicating measurements comparison related to an establishment during dissimilar years. regardless how to view these financial reporting goals ' the most common end is to aware all user groups of operation power ' developmental facilities and promoting a reporter in the area of trade a captivities ' since operation power of a reporting establishment causes qualitative and quantitative changes as well as assets ' cost ' time allocating on later incomes and vagueness degree about accomplishing the a gave incomes. Each establishment should have at least goods stock ' property ' machinery, facilities and other useable assets in high quality to produce and give some of the final products, having profit, to the market. There, it's public shopping power changes of currency, it is but also needed to mirror the generated marks by proper value changes spring of reporting establishment it self, since by this way you can find the direction and amount of changing in operation power of an establishment. Hendrickson writes in the revaluation section of his book

***Corresponding author:** Mojtaba Moradpour, Department of accounting, East Ilam, Branch, Islamic Azad University, East Ilam , Iran. E-mail: Moradpour.mo@gmail.com

(accounting theory): since the accounting structure has a historical view over past trade events, in one hand investors and creditors are more interested in thinking of establishment invested on future, this image has been formed that accountors should hand out the historical and current information that help investors the best forecast. The difference between historical value and current assets value of establishments has caused some problems to organize them, therefore establishments assets value appeared in a frame of their share price should be reform by observing inflation rate.

LITERATURE

The subject of revaluating fixed assets, Reflecting historically to financial statements, at first was stated in developed industrial societies when inflation had a little effect over economics, and gradually it has optionally been manipulated by these countries trade units. Since the procedure was harmonious with structural concepts of historical fixed price, professional meetings of these countries have launched to spread standards in this field as a reaction to the matter. Recently our country has begun to revise some cases of fixed assets revaluation by trade units like banks, in the mentioned conditions it's expected that these units have more attention to revaluation procedure. Fixed assets are converted in financial statements. It's to say, because of recent inflationary terms during last few years; there has been an outstanding incensement in value of fair fixed assets to clear prices on historical cost price. It has declined the qualities feature related to information and at last good data on financial statements.

As mentioned at above remarks preventing reflect of fixed assets on revaluation rate causes a group of trade units having recently indicated fixed. Assets in price of revaluation, launches to represent them in historical cost price. In addition, if current revaluation is accepted and isn't included to revalue completely in price, revaluated items demonstrate gradually their contains related to information. With regard to the above mentioned points, it doesn't seem a good way to restrict revaluation. regarding given terms for revaluation, other than increasing amounts of revaluation in trade unit level, improves comparability of financial statements in different trade units as well as provides information by which we can compare performance and financial terms of trade units that have been discussed partially or perfectly their known fixed assets to revalue budget on per for manse and financial terms of units which haven't shown revaluation of their known fixed assets. If there is no attention to revaluating budget in next processes, practicality of information regarding to revaluated items would be limited to users of financial statements. Besides, arising any harm to financial statements, revaluation of known fixed assets should be accomplished systematically. Standard accounting of known fixed assets represents some framework regarding the sequence of revaluation, choosing assets revaluated, determining a budget to revaluation and features of valuator. Amounts for revaluating third known fixed assets should be considered at regular interval in a way that fair value of the revaluated known fixed assets wouldn't be significantly different from the amount of dated balance sheet. In such terms, one practical and systematic solution would be using a standard in which applying regular repetitive revaluated method necessitates doing it every 3 to 5 years. Once an item of known fixed assets is revaluated, it would be necessary to revalue the other items of the same category. A category of known fixed assets points to a group of assets having the same nature and use in operation of trade units.

Revaluating all items of the same category simultaneously is necessary because optional assessment of assets and providing out of them leading to interferences in the fixed prices in different dates can be avoided. Revaluating budget of known fixed assets is its fair value at the date of revaluating. Visually fair value of building and ground is market value on assets regarding its present function, provided that asset would be used continuously in the very course with similar activity. Market value is usually determined by qualified revelators.

Taxation laws of revaluation in Iran

Revaluation is to relate the new values to given assets by which no incomes are reliable of tax besides in developed and under – developed countries tax. Regulations surplus are free on surplus and revaluation. But the following methods are applied about cases like sale and depreciation of revaluated asset according state's tax and variant financial policies:

First: if the state policy doesn't reduce taxes on revenues, in tax rules (laws):

* Cost of extra depreciation spring of revaluating fixed assets won't accepted in lights of tax laws.

* When selling revaluated assets, difference of sale on net price of sold assets win is recognized and reliable to tax. In computing early net cost, assets are with held.

If this method goes on, production's cost price will increase and operation profit will decrease, but assets reliable to tax won't change.

Second: if the government admits reducing tax on incomes to keep on establishment's development and activities, in tax.

Laws:

* Shares of a part of cost of extra depreciation spring of revaluation are considered acceptable costs in tax laws. In this case, the government can force establishments to keep surplus amount of revaluation transmitted to stock profit in specified reserve account, if they divide it among stockholders, they should pay as a tax.

* When selling revaluated asset, these two further ways can be applied: rely inference of sale over net cost of sold assets to tax. In this way. Computing net registered value of depreciable assets, accumulated depreciation based on revaluation is with held of assets value according revaluation. Doing so, you can make establishment, keep prices in specified reserved account which transmitted these amounts from surplus of revaluation to profit account, as these mount are distributed among stockholders they are reliable to tax.

Accounting of prices level and theory of measurement

Lack of reliable and fixed measurement unit is spring of arising inflationary accounting. Measurement refers figures and numbers to features, things and phenomena. The concept of measurement unit has extended itself and it's meaningful in different forms from. Simple figures to relation, degrees and correlations. Adjusted financial statements by directors are measured for distributing among stock holders and users interested in monetary unit. In fact, three stages are under measurement to gather useful information. They are selecting subject or activities title, estimating quality marks (traces), and estimating these approaches. When we refer to measurement on accounting and when we seek its features, we will discover the for there description: stating matters or activities related to an economical unit over monetary figures. Here there is a question how measurement theory is harmonious with cost range changes. It has been determined five main ways to measure on given accounting as following: historical prices, current costs, out put value, net value on sale and current value in future. Reduction on basis of changes of public cost range goes with measurement theory. Covertly, use of historical prices, provided that shopping power is fixed, doesn't go with the theory. There fore having up – to – data reliable measurement unit capable we to provide financial information, to report it well. In fact, for importance of stating realities and abilities to consider what is being reported, current prices of market are more reliable than financial prices in future. The obtained result by reducing items of historical financial statements based on changes in public costs range is that we can compare purchased assets in 1375 (1996) with ones in 1382(2003) achieving a fixed and common unit of measurement , us to this comparability . Directory can make good decisions with more in formation and they depend on figures and numbers.

Models of prices reporting index

In this section we will discuss models of reporting current purchase power (CPP) and current cost amount (CCP), model of CPP is so designed that it reports all items of financial statements in lights of money purchase power. This model is also said as a model of reporting to change public prices index, since we need a public prices index in traditional financial statements to reduce historical cost price.

Model of reporting based on current purchase power

Regulating financial statements on CCP needs applying public price index. In America, board of accounting standards recommended to use index of urban consumer's price for regulating American company's financial statements. The manner of reporting prices is affected by the above board at notification no 33 published under title of financial reporting and price Changes in September 1979. It is stressed on regulating financial statement of CPP in this notification as completing traditional financial statement based on historical prices for some huge companies. But, when inflationary terms were fade gradually in decade 80. Many reformed notifications were issued by board of standards, although it took less than a decade. Finally issuing notification no 890 in 1986 ended the life of important notification no 33 which it didn't last (less than a decade). In other words, obligations related to marks of inflation and cost changes were accomplished, and giving such information was pursued. Standard draft of CPP has been regulated by board of England compiling standards in 1973. The draft was published as a standard suggested. The same year. CPP accounting launched to cut inflation on historical cost accounts by evaluating net assets at the beginning and or late of the year based on purchase power.

REPORTING MODEL IN CURRENT COST METHOD

In 1974, the government of England launched to establish a committee called inflationary accounting one to find weak points on historical cost accounting during in flat ion and to determine possible solutions. A report on this committee was published in 1975. This committee couldn't confirm standard suggested on current purchase power accounting for few problems and it couldn't measure inflation and cost purchase power based on a general principle.

This method computes maintain ace profit. The committee suggested that maintain ace profit should be a part of stockholders equity under the title of revaluation surplus. Maintain ace profit means current value of assets for a company subtracted by historical price.

Features of methods CCP, CCA, HC

Historical cost method (HC) is theoretically in completed during changing the prices, because there is no attention to increscent and decrease mint of CCP. In other words, this method adds amounts which have variant purchase power regardless modifying them on basis of their purchase power. HCModel doesn't show affect of proper or public cost changes , as result , this method doesn't measure either profit or assets over current price of doesn't measure either profit or assets over current price of current value . CCP method is similar to HC one, but with a main difference. CCP method shows and reports effect of public cost changes over HC accounts, doing so, it doesn't add amounts with variant purchase power. In other words the main shortcoming mentioned above is solved in HC method, but CPP method neglects effect of proper costs index. Almost all believe that amounts measured by CCA method are closer to the fact, and it is because of difference between cost price amounts and obtained ones which are figured out in CCP, HC methods. In order to correct some of the deficits pointed in CCP, HC methods, CCA method is so regulated that reporting profit and loss, assets with current cost as well as stating them based. On money purchase power amounts got from CCA in financial statements, are substuted with their equivalent historical amounts. There fore, this method reports proper price changes and public changes on prices.

Historical cost accounting

In historical cost accounting , further cost change in historical cost are just allowed to measure decrease of value by using asset service or other reasons leading to decrease value remarkably . When the inflation rate is low, there won't be a serious problem if we don't care money value changes. Covertly, when it increases, the regulated financial statements will be refused. The principal aim of financial statements is to represent information of benefit .A question occurred during periods in critical inflation terms is that how regulated financial reports based on HC give a god information to make decisions?

How can a measurement unit, like money which its value is decreased continuously Inflationary terms, be a reliable criterion to measure performance of economical units?

How can investors rely on reflected information in financial statements, regulated in basis of HC, as a standard for their investment decisions?

If financial statements are regulated over HC as well as if cost value is fixed, public cost changes leave the reported figures mismeaningful .It causes we don't achieve targets of financial reporting and qualitative features. As a result it restricts reliability, comparability on accounting information. Other than undesirable effects of inflation upon accounting information, HC accounting in inflationary terms leads to reporting on computed profit, so it increases more efficient rate tax for a company than it's obtained by computing information in financial statements. Share yield rate and increasing value rate on share computed in basis of financial reports and HC represent an untrue image of realities. In addition to showing untruly the profits on HC accounting, investment is exposed untruly instead. Investment is defined as a determined amount of physical wealth. Therefore, as measuring companies' profit, we should note this fact that as long as we don't support the capital perfectly, the company won't make profits. Since prices are changing, in frame of HC accounting, the company's assets will be safe based on invested cost units and regardless caring purchase power of first investing or current cost of the company's assets.

Accounting and economical views on revaluating assets

Assets value is determined under setting conditions. For this reason cost price and historical value are out of authority from economical view. In economics, the principle of "demand and supply" indicates an asset value, so it is the most important principle to determine commodities price and service on market. Therefore. From economical view, fixed assets of a productive unit is desirable provided that they are evaluated by costs equal to value of these assets or their replacement cost at the same time. Usually assets cost especially investment and fixed assets are increasing in every economical community that its economical reasons can be modified. Also assets value is decreasing during deflation period, but applying cost principle is important in accounting body or under any circumstances. Nowadays in old and big economical organizations it is needed to consider depreciation cost of used fixed assets an important principle of cost in these systems in order to compute cost price based on up-to-date prices index until you can obtain a rationale profit and provide these establishments with conditions to keep on their activities. It is clear that necessary financial revenues, in an economical productive organization should not only settle productive and utility costs, it but also needs to have such financial power that it can keep enough stock for their replacement or basic repairs. Furthermore, computing real depreciation cost of fixed assets is always needed in

this field. This should be accomplished in lights of new revaluation cost on asset to determine real sale rate on commodities with help of such computation. With regard to the above mentioned economical factors, when making companies' activities economical, it's urgent to compute economical value on assets utilized by companies through which the director are aware of main factors on cost which are spring of products and service cost, as well as the factors determining their sale costs. In professionally developed communities, accounting is usually consist of approved principles for regulating financial reports and statements .Today financial reports and statements are regulated based on HCC not caring public cost changes, economical value or a proper change in a portion of assets except that resulted from modern banks' laws or new trade events such as installment sales, owning on rent. And so on. Besides the balance value is reduced in financial statements by approved communities' standards on accounting to complete balance account relied on the principle of "minimized cost, market cost or realizable value (NRV)" "Therefore, accounting and financial standards unlike economical laws aren't so recommended that they inform users of financial reports and statements of marks in changing prices over operation of trade unit, as a result economical value of trade unit isn't exposed directly under economical, time and place conditions. For this reason a notification was issued in 1981 by the committee of international standard on accounting in order to integrate accounting operation approach with economical views of assets value and by that time all participated countries operate it. Here there are some of the committee's accounting views as following. Most of directors and investors should like to know how inflation affects regular share cost. Different view were represented in field of inflation on share cost , some believe that increasing inflation rate caused reducing share cost to prove their claims , they pointed out records of economics in the U.S within 1975 -1974 that they faced two – digit inflation . So share cost cut down. The group believed that although inflation leads to increasing gross profit of companies, a part of gross profit is spring of increasing cost and it's temporary. In other words , since , computing profit , accumulated depreciation is viewed less than needed one to replace fixed assets , share cost won't increase over gross profit and some times because of increasing interest rate as well as proficiency rate expected by stockholders , share cost may decrease .The other group believes since general stockholders are the company's owners , in other words inflation causes increasing profit and company's cost on assets ' there fore , increasing public cost , share price will be increased especially share of companies haring used long –term loan or debt . The more real assets of a company compared with its financial assets and debts amount specially those interest rates. Are less than in inflation ones, the more share cost is in inflation terms.

Effects of revaluating fixed asset over share cost and applying common patterns to determine share cost:

-Method of determining share cost using operational, financial relations.

Usually figures entered in financial statements go back last years. As a word, it has a historical aspect. This factor affects analyzing financial relation In desirably specially profitability ones, since, in one hand, computed profit on historical value is reported exaggeratedly for unreal products cost, not applying proper depreciation. As establishment's assets are earned. From less costs as well as based on historical values reflected in stock, registered value would be less than up – to – date assets. there fore , compiling these two , that is , in one hand indicating profit more than what happened , in other hands , reflecting establishment ,s assets on historical values , lead to representing profit relations on sale , sale on assets , ROA as well as assets on stock holders equity and ROE , as a result , a vaulting share based on mentioned relations , assuming relation of cost over revenue of each share is fixed , will cause increasing companies share cost . Now, under these terms inflation periods, daily assets value is reflected in stocks by revaluating fixed assets as well as by recognizing depreciation resulted from assets revaluation in profit and loss state ment, operational net loss in the company will be realized. There fore, after revaluation, both assets (raise) and operational profits (decreases) are like current values, so using them in financial relations represent a clear concept for evaluating a company's performance and share costs . As a result, applying the above pointed relations to a valuate companies share cost will be appropriate.

-Method of determine share cost using share office method

One of the common methods for determing share cost is one based on office value of per share which is accomplished on balance sheet items. Regarding one of the basic transactions of company's assets accounting we discover it equals sum of debts and stockholders equity. Their equity is figures remained to regular stock holders, so office value of each company's regular share is obtained by dividing their equity over the number of shares. As stock holders equity is based on office value, determing share cost isn't meaningful because of historical values, and it doesn't have an out standing difference with share market price. Revaluating assets as well as reflecting their daily values in offices cause stockholder's equity current values from which determing company's share cost, based on

office value model, won't make difference with share market prices. In these offices, surplus obtained by revaluing is reported as surplus revaluation in the section of stock holders share.

Computing share price based on replacement cost on assets

The other method applied to compute per share value in the basis based of balance sheet items is computing per value based on replacement cost on assets (net value on assets) in a company. In this method per share value is earned after determining current value on a company's assets as well as with holding debts and dividing remains over regular share number.

Revaluing company's assets and reflecting it in financial statements of stock holders equity will be computed based on current value of the company's, there fore it well give a better view of mentioned company's current value. In other hands , revaluing fixed assets , company's net assets value is close to real cost as well as it will have a logic standard to show daily value of per share based on balance sheet items .

As discussed before, this method can be applied by using method of replacement value on assets and revaluation by official experts of judiciary, depened on countries. The government applied this method to specify a policy for transferring companies and it is applied for companies not accepted on stock exchange and they went to revalue their share cost.

-Applying method of inherent value on share

On financial theory, port folio value is obtained by computing current value on cash flow. It's to say , to determine port folio value first we should determine amount of cash flow resulted from port folio along with receipt time , then with regard to reducing rate which is accordance with degree of risk at such port folio , we can compute current value . Amount of cash flow belonged to a regular share is a function of the company's net profit. Also amount of the company's net profit is a function of sale one, fixed cost value, operational and no operational variable. Revaluing fixed assets and recognizing depreciation spring of revaluing assets on profit /loss statement, operational and no operational fixed costs increase, so net profit will increase.

To compute a company's inherent share value on suppose, we apply a general formula. There fore, we first represent revaluation of models assumptions then we consider effects of revaluation over profit, future cash flow and share cost at last.

$$P_0 = \sum_{t=1}^{\infty} \frac{D}{(1 + K_e)^t}$$

Assumption of the model

A) Dividend profit policy of the company is a function of profit of per share. It's to say, DPS is a function of the company's annual EPS.

B) Rate of efficiency is assumed fixed.

As represented the above discussions, in inflationary terms, given profit of companies reported is based on HCP. Regarding features and assumptions of the model, under this condition, computed EPS will be overestimated funereally. As a result, dividends per share (DPS) will be increased in short – time why profit paid in basis of unreal profit is actually division of profit and companies assets in inflationary terms that, in long – term, the company considers the model assumptions for high unreal paid profits paid, lack of liquidity, enabling to replace fixed assets as will as reducing investment, reducing proficiency and DPS from zero to unlimited time. Computing inherent share value to reduce DPS in long time would lead to cutting down current share value at zero time (p.). As doing so, if inherent value is less than real market price, demand on purchasing it will decrease. This can be a factor to decrease share cost and closing. It to inherent value.

In infutionary terms along with revaluing assets, (EPS) profit per share in companies will decrease for increasing products cost price as well as non operational fixed assets when depreciation increases. there are fore , decreasing profit per share leads to decreasing DPS to stock holders in the year of revaluation and latter periods . Although revaluation in short time leads to decreasing DPS, decreasing DPS , it is to say accumulation of cash flows will increase company's financial potential and liquidity that optimized use from it in replacing modern assets also it's reinvestment in long time will increase efficiency and will increase DDP at last . As given information indicates share cost based on latter revenues in long time, that is from one (1) to unlimited time, so the company may pay out less profit on share to stock holders after years or it may not pay out at all to then, yet regarding the above obtained liquidity in long time and/ or in unlimited time, earned profit reaches stock holders. For this reason and with regard to features of the formula also the mentioned model's assumptions, computed p. will increase as compared whit is for revaluation for

increasing DPS in future. If inherent share value is more than real market cost, demand on purchasing the share will increase through which it can be a reason for increasing share market cost and reaching inherent value.

-Applying method of “the relation of cost over revenue “ (P/E)

Share value makes different to a buger. No doubt, when purchasing share it puts him in a stance in lights of controlling the company, so their prices will be a special function to increase co – efficient. To a buger purchasing a few shares , an proper factor is not considered , amount of supply / demand which is determining the cost , always is changing and is effected under “ relation of cost over revenue “ in assumed company compared with other companies (P/E) relation of cost over revenue = share cost on marker / profit per share

The less is this relation compared with a similar share, the less is share cost. While increasing demand and deceasing supply, cost of the share will increase more above and contently. At least this is formula by which a share buyer and seller should observer on market. Accomplished tests on models of revaluating share of stock exchange on portfolio indicate productivity of applying this method (P/E) and confirm it as one of the positive and desirable methods for revaluating shares since costs determined in the basis of P/E have a little difference with realized prices in chart of stock exchange. As discussed before, amount of profit per share is unreally high in Iran because of limitation in revaluating fixed assets. This cause exposing relation of cost over revenue on share compared with other countries industries. We may infer since this thing is the to all Iranian com parable in any cases. If we think of that fixed assets of variant companies are earned at different times, we will discover that we have no fair and monotonous out let without revaluating assets, so we wont consider differences between daily value and their office price, it's to say the differences regarded as covered accumulation on accounts have no a monotonous relation in combining each company's capital.

Effects of revaluating assets without exerting tax holiday

In inflationary terms, one of the methods approaching revaluation on companies fixed assets. The main reason for applying this method is it's tax problem as all are agreed with it. According mentioned laws, revaluating assets is reliable to tax over revenue. It's to say, without changing company's financial status and earning revenue, one should pay out tax 50% to 60% increasment resulted from revaluation. Yet amounts obtained by increasing assets are practically got by stock holders in accepted companies, they are excluded from investment cycle at last. Paying out tax, with regards to the above terms, leads to creating an in desirable financial structure as compared with former stance before revaluating assets for following reasons:

1. Creating tax debt as surplus spring of revaluating assets not done yet.
2. Indesirable state of financial relations like loans ones and of owing.

Manner of recording revaluated assets and reflecting it in financial statements

There are two methods for recording revaluated assts which both are resulted in the same targets in lights of applied out comes:

First method: accumulated depreciation is removed and amount of revaluation is included as notarized cost.

Second method: both cost and accumulated depreciation amounts are modified. Merit of the former method is reflecting easily it in financial statements and its main deficit is obliterating records of revaluated assets accounting.

In second method the base of computing annual depreciation of revaluated assets will office value on assets. The advantage of this method is to protect accounting records of revaluated assets and its chief flow is difficulty in analyzing assets and accumulated depreciation.

Advantages and disadvantages of revaluating fixed assets

In critical inflationary terms, using historical prices approved in the basis of accounting will lead to exposing to serious questions with enough credit of financial statement and analyzing such financial statements is out of information value to make decisions in view of investors. It's clear that all financial relations affected by unreal information make. Investors disable to use. There fore, revaluating fixed assets is so argent that can reflect results of companies' financial statements and information as well as it can help investors' maker good and related decisions. Werits of revaluating fixed assets are listed below:

1. Realizing companies' financial statements.
2. Representing related and good information to investor's makly decisions.
3. Protecting companies' capital.

4. Realizing operational profit or proficiency of share profit.
5. Realizing specified share value.
6. Adjusting investment proficiency rate and companies' activities proficiency rate.
7. Realizing products cost spring of coming to real fixed assets depreciation.
8. Providing sufficient financial revenues to replace depreciated assets when there is no distribution in revaluation surplus.
9. Raising the possibility of receiving loans and other banks and financial statements.
10. Representing good information in to valuate performance of directors and trade units.

Disadvantages spring of revaluating fixed assets are represented here:

1. Revaluating assets, quality of information increase, but quality of reliability based on such information decreases of lacking in fact, there is a convert relation within features of reliability and integrity of financial information, i.e., trying to represent information needs to decrease it's reliability, even in few cases, it is needed to neglect reliability of information in order to show related information.
2. If revaluating fixed assets needs to increase commodities and service sale price because of increasing products cost spring of applying appropriate depreciation. These things help spreading inflation.
3. If you don't apply official assessors, professional self – interest as well as proper indicators or current values, obtained out comes may not go with the fact.
4. If revaluating approach is accomplished according to international standards or other professional societies, it keeps you away from targets of a valuation.

Needed to mention, if all companies or accepted companies on stock exchange, or at least companies in an industry, don't launch to revalue fixed assets, it will be different to compare efficiency and share cost of companies as well as it will be misundertandable to users of financial statements.

Regarding subject and literature of the research as well as said advantages and disadvantages, targets of the research can be pointed out briefly as following:

- studying effect of accepted companies fixed assets under revaluation in Tehran portifilo stock exchange over share cost.
- studying reasons why companies don't revalue assets.
- studying whether revaluating fixed assets can draw accounting information with economical facts , as a result , decision makers can plan attentionly based on them .

RESEARCH METHOD

In this section we first discuss methods of gathering information, statistic society and selective sample, and then we will study statistic methods used in this research to analyze data.

Methods of gathering information

Used methods in this study are based on library methods to discuss theoretical research and circular which later use:

1. Adjusting financial statements
2. Questionari

Modifying financial statements based on CCP, CCA

The target , modifying so , is not to represent financial statements related to selected companies according to reporting models (CCA, CPP) in given years , which modified financial statements based on public stance of proper cost s are exactly the same that were obtained from CCA and CCP , rather main end is to compare office value of companies share before modifying HC with office value of modified shares based on reporting models CCP, CCA and with share market of selected companies during give years .

Choosing the companies under study

In order to modify financial statements in this study, companies are used provided that they shouldn't be very old in lights of their establishment; their second shares have to be on stock exchange and third fixed assets from the main part of assets on balance sheet. Companies having these terms are rand companies' factories which work in industries like vehicle manufactures, cement industries and furniture stores. After revaluating financial statements and companies operation of these industries, cement industry is choosed to modify financial statements as statistic sample for following reasons:

- 1- Share cost on mark of cement companies is compared higher with other companies share cost. As mentioned in theoretical discussions, there is a direct relation among share cost on market, profitability and companies dividend

profit. So, it is highly feasible a portion of the profit would be result of reducing cost of depreciation. In fact, it's possible that these companies distribute their assets as profit in long time and modifying their financial statements to prove this.

2- When the time of establishing cement factories is not very old, so their assets aren't depreciated completely. Therefore, modifying their financial statements will represent good information to conclude.

3- Number of companies and manufactures of cement industry is more than other industries, and they give more variant financial statements to a scholar, as a result, viewing and adjusting them gives a better outcome. All manufactures and companies of cement industry accepted on portfolio stock exchange in Tehran last 2004 are 26. Among these four companies are selected as samples to adjust financial statements. The reasons for selecting these four and rejecting others include:

1- 11 companies of cement industry are accepted on stock exchange, since accepting period of these companies is contemporary with adjusting years, also share of some of them wasn't transacted all the year, as a result their financial statements wouldn't be used for adjusting.

2. The time of establishment, revenue operation as well as acceptance on stock exchange of other 6 companies go back before 1970, so these company's financial statements weren't applied to adjust (for being very old and depreciated assets).

3- among 9 companies remained, two companies were removed which their office and share market values are like, and there were a try, compared with companies remained, to choose more than 50% of them in random as statistic samples.

With regard to the above matter four cement companies are selected such ones as Sepahan, Kerman, Hegmateneh and Ghaen.

Years of 2003, 2004, also, are considered adjusting financial statements; the reason is that exerting costs index from 1997 till these years will give better information.

Applied index

It's needed to have public costs index in order to adjust financial statements based on CCP. Public costs index means commodities cost index and consumer service in urban parts of Iran prepared by inert bank of Islamic republic of Iran.

We should apply yearly average index for some cases. This index obtained by arithmetical average at the beginning and end of the year. Adjusting financial statements based on CCA, in addition to public costs index, products proper indexes of cement industry were also applied to adjust cost price of commodity on sale as well as commodity balance and orders.

Questionnaires

Questionnaire concerns three kinds of questions and they are 16 questionnaire. The first kind covers 3 Questionnaire about general features on experts, director and investor related to their age, mayor, job experience. The second one is two questionnaire about main target of research and information obtained in order to study to study the correctness and incorrectness of research hypothesis. The third kind includes 11 questionnaire covering materials that they are not about main target of research, but they can apply valuable information for concluding and ordering suggestions.

Society and studying

Statistic society includes experts and agents of stock exchange, financial and audit directors, potential and actually investment, self-interest who enjoy relative information in fields of revaluating fixed assets. In this section no special sampling method is applied to choose static sample but there is a struggle that some persons are selected as samples that have enough information, experience about research.

Applied statistic method

These test applied to accomplishing the research, binomial – test k-2 and Fisher actual test, regarding the targets. In addition, statistic method of p-value and are used for deciding on H_0 in two tests as well as use of quietly below.

Validity and reliability of questionnaire

To determine validity of research, questionnaires items are so developed that represent respondent's ideas perfectly. It's avoided developing many questions, vague items, scientific idioms and negative choices, as a result the questionnaire would be confirmed by consulting professional masters: we apply reliability of the questionnaire for

some of investors and financial directors and after studying karonbakh alpha we confirm the questionnaire, then we measure by others.

Analyzing information

80 questionnaires are distributed among statistic samples to gather information. Among these H. questionnaires handed out revisors perfectly. They were under testing in quality and quantity. Main reason for applying the above 40 questionnaires is of respondents experience and expectancy over materials as well as their enough attention in answering questions. Needed to mention that 15 questionnaires of distributed ones weren't accomplished. after revising questions it was clear that percentage of statistic society were 25% unmarried, 70% M.A, 5% PLTD as well as 25% of respondents were experts on stock exchange, 20% accountant, 17/5% university masters, 5% investors of stock exchange and 32/5% were people who had experience on accounting, auditing, teaching in universities and investing on stock exchange.

Research hypothesis

Revaluating fixed assets in inflationary terms cases improving accepted companies share on stock exchange.

Hypothesis test using fisher's accurate method

To accomplish fisher's accurate test, two questions 7 and 8 are used of questionnaire and collected results about these questions along with tables and computations are attached in appendix section.

Ho: revaluating fixed assets in inflationary terms won't lead to increasing companies share cost.

H1: revaluating fixed assets in inflationary terms will lead to increasing companies share cost.

Fisher q7 –fisher Q8 cross tabulation

Fisher Q7 – Fisher Q8 Cross tabulation

	Fisher Q 8				Total
	Very increase	increase &	Very decrease	decrease &	
Fisher Q7 Very increase & increase	1		3		4
Very decrease & decrease	0		31		31
total	1		34		35

P=0.98 $\alpha = 5\%$	Cases					
	valid		missing		Total	
	n	percent	n	percent	n	percent
Fisher Q7-Q8	35	87.7%	5	12.5%	40	100.0%

Represented briefly below:

By obtained information, it's vivid that level of meaningful test p computed is more than amount of its error (I. e, $p=0.980.05>$), so Ho is accepted since with more than 95% certainty you can claim that revaluating fixed assets in inflationary terms not only won't lead to increasing companies share cost, but also this decrease it. all respondents who believe revaluating fixed assets in inflationary terms leads to decreasing companies share profit irregularly, they said this would decreasing pansies share cost, too,

BINOMIAL- test

A good succeed is considered 75% and by analyzing given questions on question 7 the following information is obtained:

Ho: more than 75% of respondents believe revaluating fixed assets in inflationary terms won't lead to increasing companies share cost.

H1: more than 75% of respondents believe revaluating fixed assets in inflationary terms will lead to increasing companies share cost.

Among all given questions, 31 cases were related to choices of decrease which are marked in N1 and 4 cases were related to choices of increase which are

marked in N2. So this relation is computed as following:

$$4/35=11\%$$

Binomial test	
Obs. prop=.11	SPSS/PC
Test. prop=.75	Nx-7
Z approximation	cases
1-tailedd=.3228	
N1=31	
N2=4	
total =35	

With regard to that, relation of succeed is less in the sample compared with it within a group (.11<.75) ; there fore, assume Ho is accepted and H1 is refused. as level of test meaning fullness P –value is greater than error mount (a=5%), (.3228>0/05), so in level of 95% certainty you suppose Ho is confirmed and you can claim revaluating fixed assets not only didn't increase companies share cost in inflationary terms, but it just decreased the amount mentioned. statistic amount mentioned. statistic amount of test Z is computed as following;

$$Z = \frac{(0.11 - 0.75)}{\sqrt{\frac{0.75 * 0.25}{35}}} = -8.8$$

Z inferred from the table in meaningful level a = %5 equals 1/65, so computed Z (-8/8) is smaller and for this reason Ho is accepted and H1 is refused. (-8/8 <1/65).

Obtained information using question 14 is :

Third priory	Second priory	First priory	Measures to evaluate shares	Range
7.2%	8%	71%	EPS	1
17.5%	34.6%	8%	DPS	2
22.1%	17%	4.3%	Company's assets	3
12%	6.1%	5.2%	Company management	4
7.1%	5%	-	Company share	5
16%	10%	-	Production and industry	6
3%	2.1%	-	Company liquidity	7
3%	6.2%	-	Specified to the company	8
8%	9%	11.5%	Economical and political	9
4.1%	2%	-	Future planning & developing plans by company	10
40	40	40	Number of respondents	

Regarding information registered in the table , 71 % of respondents represented profit per share as first necessity for revaluating companies share , and 34/6% of them selected company's cash profit as second choice .

Modifying financial statements

In this section, among all accepted companies on Tehran portfolio stock exchange (till late 2004), cement industry is selected as statistic society of research and among these four , the companies of Kerman, Ghayen, Sepahan and Hegmataneh are selected as the best.

Modifying financial statements of these four companies in 2003, 2004 it is assumed, historical financial statement regulated in that year, that is a period of time, were gone with public costs index, so modified and historical information, based on the mentioned reporting model in this year, would be equal, from then on we modify historical financial statements over public and proper costs indexes. Selective degree is 1996 for modifying the four companies' financial statements which it is recognized as base to determine index.

Proper index of costs during 2002 to 2004

2004	2003	2002	
249.2	217.1	195.7	Index - End of year
233.15	206.4	-	Index - Average of year

Public index of costs 1997 to 2004

2004	2003	2002	2001	2000	1999	1998	1997	year
274.5	238.2	206	177.9	159.7	141.8	118.1	100	Index - End of year
256.35	222.1	191.95	168.8	150.75	129.95	109.05	-	Index- Average of year

Balance sheet of Kerman cement factory (public shares) - in million Rial

2003			2004			Chart of accounts
CCA	CCP	CH	CCA	CPP	HC	
9,920	9,920	9,920	10,507	10,507	10,507	Cash and bank
10,092	11,669	10,092	83,285	95,977	83,285	Accounts , notes receivables & Prepaid
117,560	117,560	109,614	11,286	11,286	10,540	Short term Investments
77,220	78,736	73,414	107,120	107,317	100,221	Material , goods and order
214,792	217,885	203,040	212,198	225,087	204,553	Sum of current assets
35,034	35,034	26,165	232,949	232,949	217,546	Long term Investments
156,681	156,681	65,777	252,018	252,018	91,810	Property , machinery and equipment
19,720	19,720	8,279	23,824	23,824	8,679	Other assets
211,435	211,435	100,221	508,791	508,791	318,035	Sum of non current assets
426,227	429,320	303,261	720,989	733,878	522,588	Sum of total assets
221,977	256,674	221,977	367,726	423,765	367,726	Current liabilities
12,570	14,535	12,570	8,747	10,080	8,747	Non current liabilities
234,547	271,209	234,547	376,473	433,845	367,473	Sum of total liabilities
36,720	36,720	36,720	110,160	152,111	110,160	Stock holders equity
20,698	20,698	20,698	30,346	-	30,346	Reserve
4,248	11,296	11,296	(5,133)	-	5,609	Retained earnings
130,014	-	-	209,143	-	-	Revaluation surplus
-	89,397	-	-	141,922	-	Current purchase power profit
191,680	158,111	68,714	344,516	300,033	146,115	Sum of stockholders equity
426,227	429,320	303,261	720,989	733,878	522,588	Sum of total liabilities and stock holders equity

Balance sheet of Sepahan cement factory (public shares) – in million Rial

2003			2004			Chart of accounts
CCA	CCP	CH	CCA	CPP	HC	
18,815	18,815	18,815	19,883	19,883	19,883	Cash and bank
61,638	71,273	616,638	366,800	422,689	366,800	Accounts , notes receivables & Prepaid
523,653	523,653	488,259	359,482	359,482	335,713	Short term Investments
118,101	120,419	112,280	161,002	161,298	150,633	Material , goods and order
722,207	734,160	680,992	907,167	963,361	873,029	Sum of current assets
478,726	478,726	446,369	1,005,993	1,005,993	939,477	Long term Investments
293,384	293,384	123,167	597,123	597,123	259,030	Property , machinery and equipment
19,840	19,840	8,329	31,600	31,600	11,512	Other assets
791,950	791,950	577,865	1,634,716	1,634,716	1,210,019	Sum of non current assets
1,514,157	1,526,110	1,258,857	2,541,883	2,598,077	2,083,048	Sum of total assets
714,319	825,975	714,319	1,153,354	1,329,117	1,153,354	Current liabilities
210,067	242,937	210,097	377,646	435,196	377,646	Non current liabilities
924,416	1,068,912	924,416	1,531,000	1,746,313	1,531,000	Sum of total liabilities
200,000	200,000	200,000	400,000	457,198	400,000	Stock holders equity
70,000	70,000	70,000	90,000	-	90,000	Reserve
50,297	64,441	64,441	36,779	-	62,048	Retained earnings
269,444	-	-	484,104	-	-	Revaluation surplus
-	122,757	-	-	376,566	-	Current purchase power profit
589,741	457,198	334,441	1,010,883	833,764	552,048	Sum of stockholders equity
1,514,157	1,526,110	1,258,857	2,541,883	2,598,077	2,083,048	Sum of total liabilities and stock holders equity

Balance sheet of Ghayen cement factory (public shares) – in million Rial

2003			2004			Chart of accounts
CCA	CCP	CH	CCA	CPP	HC	
11,075	11,075	11,075	5,989	5,989	5,989	Cash and bank
3,700	4,278	3,700	5,995	6,908	5,995	Accounts , notes receivables & Prepaid
76,478	76,478	71,309	47,350	47,350	44,219	Short term Investments
44,911	45,793	42,698	53,408	53,506	49,968	Material , goods and order
136,164	137,624	128,782	112,742	113,735	106,171	Sum of current assets
31,213	31,213	29,103	64,733	64,733	60,490	Long term Investments
82,200	82,200	34,509	94,145	94,145	34,297	Property , machinery and

						equipment
12,346	12,346	5,183	18,207	18,207	6,633	Other assets
125,759	125,759	67,795	177,125	177,125	101,420	Sum of non current assets
261,923	263,383	197,577	289,867	290,878	207,591	Sum of total assets
133,252	154,081	133,252	157,434	181,426	157,434	Current liabilities
7,723	8,930	7,723	9,106	10,494	9,106	Non current liabilities
140,975	163,011	140,975	166,540	191,920	166,540	Sum of total liabilities
26,611	26,611	26,611	26,611	97,544	26,611	Stock holders equity
12,273	12,273	12,273	2,661	-	2,611	Reserve
12,273	12,273	12,273	2,661	-	11,779	Retained earnings
68,705	-	-	88,418	-	-	Revaluation surplus
-	43,770	-	-	1,414	-	Current purchase power profit
120,923	100,372	56,602	123,326	98,985	41,051	Sum of stockholders equity
261,923	263,383	197,577	289,867	290,878	207,591	Sum of total liabilities and stock holders equity

Balance sheet of Hegmatan cement factory (public shares) – in million Rial

29/12/2003			30/12/2004			Chart of accounts
CCA	CCP	CH	CCA	CPP	HC	
10,325	10,325	10,325	19,417	19,417	19,417	Cash and bank
3,372	3,899	3,372	6,822	7,862	6,822	Accounts , notes receivables & Prepaid
83,677	83,677	78,021	7,817	7,817	7,300	Short term Investments
63,100	64,339	59,990	86,650	86,809	81,069	Material , goods and order
160,474	162,240	151,708	120,706	121,905	114,608	Sum of current assets
36,261	36,261	33,810	187,251	187,251	174,870	Long term Investments
451,710	451,710	189,635	1,073,799	1,073,799	533,251	Property , machinery and equipment
108,848	108,848	45,696	114,988	114,988	41,890	Other assets
596,819	596,819	269,141	1,376,038	1,376,038	770,011	Sum of non current assets
757,293	759,059	420,849	1,496,744	1,497,943	884,619	Sum of total assets
235,442	272,244	235,442	304,966	351,441	304,966	Current liabilities
60,809	70,314	60,890	338,860	390,500	338,860	Non current liabilities
296,251	342,558	296,251	643,826	741,941	643,826	Sum of total liabilities
111,000	111,000	111,000	222,000	416,501	222,000	Stock holders equity
13,577	13,577	13,577	15,594	-	15,594	Reserve
(7,096)	21	21	(8,162)	-	3,199	Retained earnings
343,561	-	-	623,486	-	-	Revaluation surplus
-	291,903	-	-	339,501	-	Current purchase power profit
461,042	416,501	124,598	852,918	756,002	240,793	Sum of stockholders equity
757,293	759,059	420,849	1,496,744	1,497,943	884,619	Sum of total liabilities and stock holders equity

Profit / loss statement – in million Rial

H. C. F		S. C. F		GH.C.F		K.C.F		Title
2003	2004	2003	2004	2003	2004	2003	2004	
169,495	262,767	581,058	719,815	194,948	213,649	199,646	345,295	Sale and revenue obtained by giving service
(91,577)	(118,851)	(239,415)	(315,452)	(74,724)	(82,398)	(120,074)	(139,788)	Sold goods cost
77,938	143,916	341,643	404,363	120,224	131,251	79,572	205,507	Gross profit /loss
(9,396)	(25,040)	(42,599)	(50,254)	(10,305)	(13,574)	(12,342)	(25,369)	Operation costs
68,542	118,876	299,044	345,109	19,919	117,677	67,230	180,138	Operation profit
(755)	32,427	237,359	335,975	12,148	16,195	18,980	46,856	Costs and other revenues net
67,787	151,303	536,403	690,066	122,067	133,872	86,210	266,994	Net profit – before tax withholding

Table comparing share office value according CCA-CPP-HC with share market cost (figures in millions Rial)

2003/12/29				2004/12/30				Title
Market Value	CCA	CPP	HC	Market Value	CCA	CCP	HC	
20,896	52,200	43,050	18,710	65,623	31,270	27,230	13,260	Kerman cement factory
49,782	29,490	22,860	16,720	18,230	25,270	20,840	13,800	Sepahan cement factory
82,346	45,450	37,720	21,270	64,870	46,340	37,190	15,430	Gaen cement factory
25,322	41,530	37,520	11,220	10,389	38,420	34,050	10,850	Hegmatan cement factory

Table comparing office share value according models CCA, CPP, HC with share cost on market (figures written in rails). The above obtained results indicate that modifying financial statements based on models of CCA and CCA and CCP leads to share value on market. As doing so, method of CCA is realized more because of modifying non monetary items as well as considering proper costs index. With regard to the different within office value obtained, share Market value and also given materials in discussions theoretically and earned results by analyzing research open freely and accomplished interviews with related experts, it is clear that, in most cases, share market value of accepted companies on Tehran portfolio stock exchange is higher than their real and inherent value.

Needed to note that excreting the mentioned methods in other companies as well as affects of selective indexes Based on assumptions of modified models and excreting them virtually in all assets based on data of craning them and evaluating by official technical experts, may reach more different results than what we have obtained. As seen, modified office values of two years in Hegmatan cement factory, Kerman cement one in 2003 and Sepahan cement factory in 2004 are higher share market value and seems reason of increasing modified office value related to market value is reducing their sick and reducing company's and also increasing their debts. (Increasing proper indexes in 2003 and especially in 2004 confirms this matter).

THE RESEARCH RESULTS

With regard to obtained information from literature subject of the research and analyzing data, the flowing results are inferred:

1- Revaluating fixed assets in inflationary terms leads to reducing companies' profit, and this reduction occurs factually, since revaluating causes applying rational and appropriate depreciation for assets. And raising cost of products. 85% of people as statistic samples evaluated profit of companies when revaluation was along with reducing evaluation. As accomplished reports show, 71% of people select profit per share as first standard for evaluating companies share, so reporting less profit by accepted companies on stock exchange leads to reducing their share cost and reducing demand for shares.

Needed to note that motivation in 70% of people related to increasing share cost in selected statistic sample for investing on companies share also modifying financial statements of the four selected companies in cement industry based on models CCP, CCA indicates increasing recent share value of these companies compared with modified office value. the above mentioned cases and idea of 77% of people confirm this issue that revaluating assets in inflationary terms not only don't lead to raising share cost of accepted companies, but this leads to reducing it, too

2- according to Iran tax laws, cost price is a standard to compute depreciation on assets, so revaluation surplus and depreciation spring of it aren't a part of acceptable costs and are reliable to tax. This causes companies wouldn't have motivation to revalue their assets.

3- Revaluating fixed assets in inflationary terms leads to protecting companies' capital as fixed costs and replacing fixed assets.

Conclusion and suggestion

Currency value is changing by excreting inflation producing or non inflationary of the states and other economical and social factors all over the world. These changes are remarkable in recent years; they are common mainly in reducing currency purchase power. This thing, regarding current value in showing assets status, debts, companies stock and results of their performance seems important, since studying financial statements based on historical values is not a right standard to judge. Present difference between historical value and companies daily assets value in inflationary terms causes many problems so company's assets value which appear in forms of their share cost should be considered and corrected according to inflation rate. Office value on assets, machinery and facilities in structure of historical cost price is a standard to compute depreciation and to determine products cost price and if computes frequently less their cost price. Than the fact, so company's profit is reported more than the fact in financial statements. Such approach leads to distributing assets as profit in long time and reduces company financial power. There fore, need of establishing an appropriate method senses perfectly in frames of historical cost price by which valid accounting information based on recent values and related to making proper economical decisions. This method is revaluating fixed assets. The target of this study was to view effects of using revaluated financial statements over accepted companies share cost on Tehran portfolio stock exchange, if it works well, you can introduce adjusting financial statements as an improvement in growing executive fields and theoretical accounting and even though this effect is slow, indicating the subject will give a good effect on indicating the problem in professional and research society on accounting of Iran. In addition to discussion of share status,

revaluating fixed assets reflects operation results and financial status according to reporting ends, so it reveals financial statements in order to give good information related to users of them. investors who are on of the most important users group , earning good information and related to companies financial status , in cases like selling and purchasing of companies share will be guidelines .

Suggestions of the research

- 1- Tax laws should be enacted so that they persuade companies for revaluating and reducing taxes on revaluation. This is good for the state and companies economically and it increase companies motivation in revaluating.
- 2- As enacting favorite tax laws, accounting standards related to revaluating fixed assets periodically should be executed in order to regulate monotonous financial statements based on the states economical status.
- 3- Revalue fixed assets in group and based on a systematic method, since avoiding this leads to give unreal information and figures in financial statements.

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