REVIEWS THEORIES OF PROFIT DIVIDING IN ACCOUNTING

Seyed Hasan Saleh Nejad
Department of Accounting, Science and Research Branch, Islamic Azad University, Mazandaran, Iran
Abas Ali Pour Aghajan
Department of Accounting, Science and Research Branch, Islamic Azad University, Mazandaran, Iran
Ali Akbar Salimi
Department of Accounting, Science and Research Branch, Islamic Azad University, Mazandaran, Iran
(Corresponding Author)

Abstract
So far, researchers have provided many models and theories for describe, explain and predict effective factors on company decisions regarding profit dividing. In terms of perfect market profit dividing hasn't impact on firm value and therefore in decision making is a irrelevant factor. These has been on condition make several assumptions include the following :

1. *Absence of taxes*
2. *Absence of transaction costs (Including the cost of issuance of stock and debt)*
3. *Lack the impact of financial leverage (Debt Ratio) on cost of capital*
4. *Information symmetry between owners and managers in relation to future expected conditions*
5. *Lack of effect how to allocate the net profit between division profit and cumulative profit on the cost of company shareholders rights*

Several potential factors have affect on the profit dividend policy that yet have been identified many of them by previous studies. In the following be noted to some of them.

Keywords : *Theory of Signaling, Theory of Agency, Theory of Maturity, Theory of Reception, Theory of Tax*

Introduction

Research conducted on the profit dividend policy are included two general categories, first, research that deals to reviews effects of dividend profit on the firms value. Second, research that deals to reviews and identification effective factors on the firms profit dividend policy. Researchers so far have provided many theories and models for describe, explain and predict of effective factors on the firm decisions regarding distribution of profits(Titman & Wessels 1998). Miller and Modigliani (1961) in their famous theory with the name dividends profit unrelated have claimed in terms of perfect market distribution of profits hasn't impact on company value and consequently it is irrelevant factor in decision making. Many researchers deal to explain profit dividend policy in conditions of incomplete markets that in it not established one or more of the assumptions. On this basis, they have been proposed several theories regarding the profit dividend policy.(Najjar & Taylor 2008)

Previous Research

No.	Researchers	Results
1	Miller & Rock 1985	Projected profit per share is appropriate indicator for dividends profit projected per share.
2	Decho Etal. 1998	Current profits compared with current cash flows are better predictor for future cash flows.
3	Bradly Et al. 1998	Companies in situations where have high uncertainty they distributed less dividends.
4	Liu Et al. 2007	Profit predictions per share compared to operating cash flows per share are appropriate criteria for value of the company.
5	Ghorbani 2005	Investment opportunities, signaling theory and random walk, firm size and also ratio of financial facilities to total debt are effective in the amount of dividends profit

(Hasan & Butt 2009 and Akhtar 2005)

Theories of Profits Distribution

Theory of Residual Distribution Profits

Theory of residual distribution profits in for first time in 1932 be proposed by Printerj. According to this theory, firm profit dividend policy is direct consequence of its investment Policies. Meaning that after allocation of available financial resources to with positive present value net, remaining surplus cash flows (If any) will be distributed as dividend among shareholders. It is obvious in case of adopting such a policy company only with having free cash flows will be attempt to distribution of profits.(Bathala Et al. 1994)

Theory of Signaling

According to this model create source of information asymmetry is existence inside information. So that management compared outside investors has more information about growth opportunities, profitability, cash flows, and generally expected future condition. Because managers spend most of their time for analysis and assessment products, markets, strategy and investment opportunities and more timely information has regarding current performance and therefore they are better able to future forecasts. In the signaling hypothesis it is proposed that in some of conditions managers have motive for transfer of this information for reasons such as increase in firm value, attract new investors, and reduce agency costs. But, given the lack impartial of management than desired information should be use appropriate mechanisms and reliable of market for transmit this information. Infrastructure of signaling hypothesis is information content existence of dividend profit and reduce information asymmetry by lies data in unexpected changes in the cash benefit. (Rajan & Zingales 1995)

Theory of Agency

It create resulting separation of ownership and management interests and deals with the analysis conflict of existing interest between agency relationship parties, the so-called agency. The basic premise of this theory is in case people act is to maximize their personal interests and as regards utility functions for individuals always do not coincide on the other, managers necessarily always will not following the acquisition of maximum benefits for homeowners. According to agency theory, owners aware of this conflict of interest and the risk of opportunistic behaviors from management are sought reduce agency problems and aligned of managers and owners interests using a series of corporate strategic mechanisms. (Willet 1968)

The Hypotheses of Agency Theory

Agency Cost Hypothesis

Jensen and Mac Ling (1976) defined agency costs as the sum of the following :

1. Monitoring costs (Control) manager by owners
2. Commitments costs (Resources spent by manager for the attract owners trust)
3. Residual losses that by management's opportunistic behavior despite the bear the costs of monitoring and commitments be imposed to owners.

One of the types of agency costs is cost of free cash flows invest in projects with negative present value net (Investment over optimal).(Roulstone 1999)

The Minimum Cost of Profit Dividing Hypothesis

According minimal expense model of Joseph (1982) is expected companies in the determining optimal amount of their profit do balances dividing between costs arising profit dividing namely transaction costs on external financing (releases cost of Stocks and debt securities and the cost of the contract) on the one hand, and also interests from it namely reduce agency costs arising from free cash flows. Thus according this model, limit of profit dividing optimal is a proportion which total cost of external financing agency costs (Including supervision, commitments and loss of residual) reach to own minimum. (Modigliani & Miller 1958)

Management Compensation Hypothesis

In this theory assumes that cash benefit be used as one of the problem solving tools of agency in the management bonus contract. Based on expected ratio profit dividing have inverse relationship with managers rewarded. (Huang & Song 2006)

Outcome Hypothesis

According outcome model, higher profit dividing is consequence of implementation of the strong and effective governance system in company. Because strong corporate governance difficult management opportunistic behavior and owners can by effective applying pressure achieve to own purpose namely distribution of free cash flows as cash benefit and reduce agency costs. (Davis 1996)

Succession Hypothesis

In the succession model it is proposed that profit dividing as one of the effective mechanisms of reducing agency costs in the absence of strong corporate governance can be as tool alternative order to convince owners that their resources used for maximize their own interests and also lack of occurrence opportunistic behavior from management. (Ahn & Denis 2006)

Theory of Maturity

According to this theory, companies with regard to changes in investment opportunities and free cash flows develop and modify their profit dividend policy as optimal.

In the maturity theory, increases cash benefit be interpreted as an indication of the investment firm from stage of capital injection to stage of maturity. Younger firms (Growth stage) have many investment opportunities with positive present value net, earned high economic profits, their capital expenditures is high, they have less free cash flows, and experience rapid growth in own profits. Thus according maturity theory, more mature companies that have more free cash flows and to reduce agency costs caused by these free cash flows, will be distributed probably more cash benefit. (Beasley Et al 2001)

Theory of Reception

Central core of reception theory is that the managers identified asked investors and based on case respond to it or to interpret according to the preferences of investors receive from it and also with understanding this thread shows positive reaction to shareholder value such firms. (Tong & Ning 2004)

Theory of Tax

In the hypothesis impact of tax on the dividend profit with the help of market failure (Incomplete Markets) different tax than stock cash benefit and capital profit (arising from changing the shareholder value) deal to explain of profit dividend issue from the perspective of shareholders. Of course effect of tax on the dividends profit is differ in the different legal systems. (Tsai & Gu 2007)

Conclusions

Profit dividend is significant issues of accounting in every organization. For profit dividend be proposed many theories included theory of residual distribution profits, theory of signaling, theory of agency, theory of maturity, theory of reception, and theory of tax. Theory of agency is one of the important theories in profit dividend and its hypotheses are include : agency cost hypothesis, the minimum cost of profit dividing hypothesis, management compensation hypothesis, outcome hypothesis, succession hypothesis.

According to this theory, firm profit dividend policy is direct consequence of its investment Policies. According to this model create source of information asymmetry is existence inside information. The basic premise of this theory is in case people act is to maximize their personal interests. In the maturity theory, increases cash benefit be interpreted as an indication of the investment firm from stage of capital injection to stage of maturity. Central core of reception theory is that the managers identified asked investors and based on case respond to it. In the hypothesis impact of tax on the dividend profit with the help of market failure (Incomplete Markets) different tax than stock cash benefit and capital profit (arising from changing the shareholder value) deal to explain of profit dividend issue from the perspective of shareholders

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