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RESEARCH PAPER

Accounting Comparability, Stock Liquidity, and Firm Value

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Abstract
The main purpose of this study is to test the impact of accounting comparability on stock liquidity and firm value. This study uses panel data analysis to test hypotheses for a sample of 108 firms listed on the Tehran Stock Exchange during 2016-2020. Our empirical results show a positive relationship between accounting comparability with free float ratio and stock turnover ratio. But there is no significant relationship between accounting comparability and the Amihud ratio. The interpretation of this result can be attributed to how the Amihud ratio is calculated. Based on the constraints imposed on the Iranian capital market, the daily return in calculating the Amihud ratio has a certain fluctuation range and is not able to reflect all the dimensions of the market. In addition, our results document a positive relation between accounting comparability and firm value. Finally, accounting comparability does not moderate the association between stock liquidity and firm value. In addition, the cost of capital (CoC) intensifies the relationship between accounting comparability and firm value. We interpret these results as accounting comparability improves transparency, and reduces information asymmetry. These results also show that the capital market is incomplete.

Keywords: Accounting Comparability, Stock Liquidity, Firm Value, Cost of Capital.

1. Introduction

Stock liquidity is one of the most important criteria for investors. Liquidity refers to the ease of buying and selling stocks without changing the price, or in other words, the ability to buy and sell a large number of securities quickly and with little impact on the price (Amihud, 2002). Due to the growing importance of stock liquidity, researchers have examined the factors affecting it from different dimensions (Attig et al., 2006; Kale and Loon, 2011; Prommin et al., 2014; Ali et al., 2016; Schoenfeld, 2017; Ding and Suardi, 2019). It is important to note that previous research on determining factors influencing stock liquidity is limited. Most research in this area has studied the implications and consequences of stock liquidity. In other words, in most previous research, stock liquidity has been tested as an independent variable. But this study examines one of the factors influencing stock liquidity. This factor is one of the main qualitative characteristics related to financial reporting, accounting comparability.

Firm risks affect shareholder (or investors) expectations. Complex, vague and opaque financial information does not provide any information about the different risks in the firm (Barth et al., 2013). Jensen and Meckling (1976) argued that conflict of interest and incapacity of the owners in the direct supervision of the actions of the agents (managers) leads to moral hazard. This issue increases agency costs. In this regard, stockholders use adequate control

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and oversight mechanisms to protect themselves from conflict of interest. Transparency of financial statements and the quality of disclosed information has been considered as a practical solution. Transparency and quality of information lead to reducing information asymmetry (Karamanou and Vafeas, 2005).

Wallace (1980) also believes that it is impossible to obtain unexpected returns using the information available in the efficient stock market; however, she argued that there is evidence that the issuance of financial information on the market is valuable from the viewpoint of investors. Bhattacharya et al. (2013) also state that one of the critical roles of accounting information is to provide relevant information for the optimal allocation of capital in financial markets. Accordingly, the determinants of accounting information (financial reporting) quality and its implications are important for investors, corporate executives, and standard-setters.

Accounting comparability is one of the most important factors influencing the quality of financial reporting (Sohn, 2016). Furthermore, considering the costs of preparing, processing, and auditing financial statements, accounting comparability is one of the main characteristics of financial reporting (Kothari et al., 2010). Investors and creditors (or other stakeholders) make the best choices by comparing the financial information of peer companies in the industry. Financial Accounting Standards Board (FASB, 1980 and 2010) also states (in the Statement of Financial Accounting Concepts No.2 and No.8) that "investing decisions essentially involve evaluations of alternative opportunities, and they cannot make rationally if comparative information is not available. Also, comparability, as a qualitative feature of financial information, enables users to identify and understand the similarities and differences between the two sets of economic phenomena".

IASB (International Accounting Standard Board) develops standards that should require high-quality, transparent, and comparable information in financial statements and other financial reporting (IASC Foundation, 2010). Mita et al. (2018) also concluded that IFRS adoption could be increased transparency and comparability of financial statements. Furthermore, the theoretical framework of financial reporting in Iran, which is inconsistent with IFRS, states that users of financial statements should be able to compare the financial statements of the firm over time. Users should also be able to compare the financial statements of different firms to assess their financial status.

Comparability increases the speed of information processing and understanding of the similarities and differences in the reports. It reduces the costs and errors associated with the processing of information by investors and analysts. In other words, as the accounting comparability increases, financial information becomes more transparent (or less opacity) for external users and market participants (Engelberg et al., 2018). Therefore, financial information manipulation decreases, and subsequently, investors and minority groups can better assess the firm performance. Moreover, the business operations of a particular firm shape by both the specific factors of the firm and the factors of the industry (Gong et al., 2013). Moreover, it is hard for stakeholders to process the information signals related to a particular company and underestimate personal information in the judgment and decision-making process (Lipe and Salterio, 2000).

De Franco et al. (2011) studied the benefits of accounting comparability. They showed that comparability is positively related to analyst forecast accuracy. In a situation where information publishes in the market at random, and the process of presenting information carry systematically regardless of whether it is good or bad, it can say that the information has asymmetric distributional properties (Kothari et al., 2009). But managers, based on management information theory, are always motivated to hide adverse information from investors and keep them inside the firm by manipulating earnings (Ball, 2009). Chung et al. (2009) also showed that firms with more earnings management have less stock liquidity.

Accounting comparability decreases accrual-based earnings management (Sohn, 2016) and consequently increases financial reporting quality and stock liquidity.

Habib et al. (2020) stated that a higher degree of comparability lowers information acquisition costs, increases the quantity and quality of information available for stakeholders. Also, Kim and Lim (2017) argued that with the increasing accounting comparability, more helpful information is available for investors and other users, which can decrease the information asymmetry. As a result, stock liquidity increases (Lin et al., 2012). In sum, we can conclude that accounting comparability by reducing earnings management and information asymmetry leads to more stock liquidity.

The next issue in this research is the examination of the relationship between accounting comparability and firm value. According to the theory of the firm, the main purpose of a firm is value-maximizing (Fama, 1978). Jensen and Meckling (1976) stated that the separation between ownership and control leads to agency costs. Consequently, managers shirk their responsibilities and do not seek the interests of shareholders; thus, the firm value decreases. Factors affecting the firm value include internal and external factors (Winarto, 2015). To maximize firm value, the firm needs to pay attention to the various factors. For example, financial reporting is one of the internal factors affecting the firm value (Dechow et al., 2010; Zimmerman, 2013). Neel (2017) also showed that changes in firm-specific reporting quality and accounting comparability have economic consequences. More comparable accounting information decreases information asymmetry. Subsequently, reduce the cost of capital and increase firm value (Easley et al., 2002).

Previous research has examined several influential factors on stock liquidity and firm value. However, most of these factors have been financial indicators. This research has contributions in several aspects. First, we examine the impact of accounting comparability on stock liquidity and firm value. The most recent study in this field is the research of Neel (2017), who investigated the impact of cross-country accounting comparability on Tobin's q, stock liquidity, analyst forecast accuracy, and analyst forecast agreement. However, the focus of his research is on different countries which have adopted International Financial Reporting Standards (IFRS). Moreover, despite the paradigm of previous research, the impact of one of the accounting characteristics- accounting comparability- on stock liquidity has been examined. In this regard, previous studies have focused on significant characteristics of financial reporting such as earnings (or accruals) quality as an indicator for financial reporting quality, quality of disclosed information, and corporate governance mechanisms (Bardos, 2011; Shiri and Roshandel, 2015; Schoenfeld, 2017; Al-Jaifi et al., 2017). In addition, we test the moderating role of accounting comparability in the relationship between stock liquidity and firm value. Second, this research investigates the role of cost of capital (CoC) as a moderating variable on the relationship between comparability and firm value. That is, our results are robust to different liquidity indices and examining moderating variables.

The structure of the article is as follows. First, the Iranian accounting and finance environment is described in section 2. Background literature and hypotheses development describe in section 3. Section 4 addresses model development. Section 5 describes the results of the descriptive statistics; the multivariate analysis for hypotheses. Robustness tests and additional tests are addressed in section 6, and finally, the conclusion and remarks present in section 7.

2. Accounting and Finance Environment in Iran

For the past three decades (almost after the Islamic Revolution in 1979), accounting standards in Iran develop by the Iranian Audit Organization (AO). National accounting standards are

almost inconsistent with international accounting standards (IAS). However, due to the conditions of the Iranian economic, cultural, and commercial environment, there are minor differences between national and international standards (Mashayekhi and Mashayekh, 2008). According to these standards, accounting comparability introduces as one of the main characteristics of financial reporting that facilitates the assessment of financial condition, financial performance, and financial flexibility of financial statements of different firms.

Following the privatization policies after the 1979 revolution, most of the financial resources needed by companies finance through banks. However, in recent years, with the increase of capital market penetration at the national level (currently, about 5 million shareholders in the Tehran Stock Exchange (TSE) are trading in securities), the Tehran Stock Exchange (TSE) has found a more significant role. In this regard, the Iranian Securities and Exchange Organization (SEO) has required companies to meet international financial reporting standards (IFRS) since 2016. This requirement increases information transparency and reduces information asymmetry. Also, according to the direct tax law in Iran, dividends and capital gains are exempt from tax. However, due to significant control of the Iranian government in businesses (Mashayekhi and Bazaz, 2008), institutional shareholders are state or quasi-state, which is one of the most weaknesses of the Iranian capital market (Mehrabani, 2012). This issue has made the Iranian capital market inefficient. However, the Iranian Code of Corporate Governance (CG) of 2020 provides the basis for increased oversight of the corporate information environment. However, financing in Iran is still bank-oriented rather than capital-oriented. As a result, it can say that the Iranian capital market suffers from high information asymmetry, and it is necessary to reduce this asymmetry by applying appropriate accounting procedures.

3. Background Literature and Hypotheses Development

Investors and creditors constantly make the best choices by investigating the financial situation of firms and comparing them to the information of other competing (peer) firms. Undoubtedly, financial statements are one of the most valuable sources for this purpose. The usefulness of this information stems from their many qualitative characteristics, one of which is comparability (Kothari et al., 2010; De Franco et al., 2011; Kim et al., 2016; Majeed and Yan, 2019). On the other hand, return and risk play an important role in investment decisions (Markowitz, 1991; Modigliani and Pogue, 1974; Campbell, 1996; Vogel and Hayes, 1998). Also, liquidity is one of the factors influencing the risk of financial assets (Holmström and Tirole, 2000; Pástor and Stambaugh, 2003; Eckbo and Norly, 2005; Brogaard et al., 2017). Therefore, both accounting comparability and stock liquidity are essential in investors' decision-making. In this regard, it is necessary to explain the relationship between these two characteristics. The relationship between comparability and liquidity can interpret from two dimensions. One is due to reducing agency costs and information asymmetry, and the other is increasing the quality (transparency) of financial reporting due to growing comparability. In the following, these two approaches explain further.

A large number of studies have documented the relationship between transparency and stock liquidity. (Gemmill, 1996; Pagano and Roell, 1996; Lang and Maffett, 2011; Lang et al., 2012; Ma et al., 2016). However, the empirical results in this area are contradictory. For example, although Gemmill (1996) argued that transparency (delayed publication) is related to liquidity theoretically, however; his results do not confirm this relationship. But, Pagano and Roell (1996) showed that the transparency of the market mechanism generally enhances liquidity. This result is attributed to greater access to information and less information asymmetry. On the other hand, prior research has documented a positive association between

financial statements' comparability and economic consequences in terms of stock liquidity (Kim et al., 2020) and cost of capital (Imhof et al., 2017). In sum, this research document that accounting comparability decreases information asymmetry and increases users' understanding of financial statements.

Goldstein et al. (2007) stated that transparency has either a neutral or a positive effect on liquidity. Lang and Maffett (2011) documented that firms with greater transparency experience less liquidity volatility and fewer extreme illiquidity events. Lang et al. (2012), also by reviewing previous research (Leuz, 2003; Daske, 2006; Daske et al., 2008), concluded that if accounting standards lead to increasing quality, subsequently can affect liquidity and cost of capital and showed that transparency is related to lower transaction costs and higher liquidity. Moreover, they showed the same relationship when earnings management is lesser. Ali et al. (2016) and Al-Jaifi et al. (2017) showed that effective governance decreases information asymmetries, increases transparency, subsequently affects liquidity positively. In sum, it can conclude that transparency increases liquidity. Ma et al. (2016) also argued that liquidity is positively associated with firm transparency.

Furthermore, the results of past research have confirmed a positive relationship between financial reporting quality and liquidity (Bardos, 2011; Ng, 2011; Ascioglu et al., 2012; Shiri and Roshandel, 2015; Kosmidou et al., 2020). On the other hand, accounting comparability introduces as one of the factors affecting transparency and financial reporting quality (Sohn, 2016; Chen and Gong, 2019). Therefore, it expects that accounting comparability affects liquidity by increasing the awareness of investors. It is essential to note that accounting comparability, financial reporting quality, and transparency are all considered qualitative characteristics of financial information. In this regard, Barth and Schipper (2008) defined transparency as the extent to which financial reports reveal firm underlying economics in a way that is readily understandable by those using the financial statements. Financial reporting quality defines as reports that are complete, neutral, and free from error and provide more useful predictive or confirmatory information about the firm underlying economic position and performance (Gaynor et al., 2016). This definition is very similar to the concept of accounting comparability.

On the other hand, previous research has shown that agency costs and information asymmetry also affect stock liquidity. For example, Attig et al. (2006) showed that more prominent information asymmetry leads to a wider bid-ask spread. Bhide (1993) also argued that information asymmetry problems reduce stock liquidity. Ajina et al. (2015) showed that institutional investors display a positive signal to the market about more transparency and a low level of informational asymmetry, consequently improve stock liquidity. Moreover, following the adverse selection hypothesis, information asymmetry reduces stock liquidity (Yosra and Ben Ouda Sioud, 2011). It should be considered that information asymmetry leads to agency conflicts between managers and outside investors, which might decrease the volume of transactions in the capital market (Akerlof, 1970). In sum, it can conclude that fewer agency problems and less information asymmetry increase stock liquidity. Furthermore, De Franco et al. (2011) also showed that financial statement comparability lowers the cost of acquiring information and increases the overall quantity and quality of information available to users. In this regard, Sohn (2016) showed that more comparability reduces accruals management. Zhang's evidence (2018) also indicates that comparability is inversely related to discretionary accruals.

These results suggest that similarities and differences across comparable firms limit managers to manipulating earnings and subsequently will increase financial reporting quality. Also, recent research in this field shows that comparability can speed up the transfer of financial information among similar firms and reduce the cost of obtaining and processing

information for users, as well as increase the quality and transparency of financial information (Barth et al., 2012; Kim et al., 2013). Moreover, Kerr (2019) suggested that greater levels of disclosure, less evidence of earnings management, better accounting standards (such as the adoption of IFRS), higher-quality auditors, more analyst following, and more accurate analyst forecasts (i.e., increased transparency) all effect on financial reporting transparency. On the other hand, financial reporting quality can reduce information asymmetries and mitigate agency costs (Healy and Palepu, 2001).In general, it can conclude that comparability by limiting the managers in earnings management increases the quality of financial reporting. So, we expect that accounting comparability is related positively to stock liquidity.

While the effect of comparability on stock liquidity can interpret through the transparency and financial reporting quality and the reduction of information asymmetry, however, based on theoretical foundations, a positive relationship between accounting comparability and liquidity can interpret separately. Investors, regulators, academics, and researchers all emphasize the importance of financial statement comparability (De Franco et al., 2011). Moreover, Chauhan and Kumar (2019) also showed that accounting comparability could complement a poor information environment. Daske et al. (2008) and Drake et al. (2012) also documented that mandatory IFRS reporting leads to an increase in aggregate market liquidity. They attributed this result to both comparability effects and financial reporting quality. According to the Financial Accounting Standards Board (1980), comparability is one of the qualitative characteristics that enables users to identify better the similarities and differences related to the financial performance of firms and economic events. That is, accounting comparability for investors in the capital market is vital. Without this capability, they will not be able to identify opportunities and make optimal investment decisions. Moreover, the Securities and Exchange Commission (SEC) (2000) states that comparability facilitates efficient capital allocation and improves investor confidence. Regarding the above, the first hypothesis state as follows:

Hypothesis 1. Accounting comparability is positively associated with stock liquidity.

A firm's external financial reporting quality can affect firm value through the valuation model. In this regard, Francis et al. (2005) showed financial reporting quality reduces the information risk and then reduces the cost of capital; because investors use a lower discount rate in the firm valuation model. On the other hand, Chen and Gong (2019) argued accounting comparability via increasing the accuracy of accruals estimation by managers and encouraging them to signal their private information and improving investors' comprehension of accruals will increase the financial reporting quality. Siagian et al. (2013) also indicate that lower value firms tend to disclose more information than higher value firms. They argued disclosures mitigate agency problems, investment risk, and cost of capital. Hence firms with better disclosures will have a higher value.

Information asymmetry creates agency costs and increases the risks faced by stockholders. Agency costs also increase the cost of capital, which is a criterion for the expected return on any investment to leave the value of the firm unaffected (Stulz, 1996). Although in the competitive markets, information asymmetry does not affect the cost of capital, in imperfect markets, there is a positive relationship between information asymmetry and the cost of capital (Armstrong et al., 2011; Lambert et al., 2012). Modigliani and Miller (1963) argued that the cost of capital affects investment decisions (capital structure) and therefore affects firm value. In sum, firms look for projects which lead to maximizing the firm value (minimize the cost of capital). Sequence, the cost of capital plays an essential role in the firm value so that almost all researchers study how it behaves to measure changes in the firm value

(Modigliani and Miller, 1958; Miller, 1977; Hail and Leuz, 2009; Orens et al., 2009; Plumlee et al., 2015; Dang et al., 2020).

To minimize information asymmetry, firms disclose information through financial reporting. In addition, financial reporting characteristics such as financial reporting quality (as a macro-level characteristic) and accounting comparability (as a micro-level characteristic), which have an essential role in the minimizing of information asymmetry and agency costs, subsequently the cost of capital. Accounting comparability not only affects internal decision-making (Ozkan et al., 2012; Lobo et al., 2018); but also has a significant role in determining the decision-making of external users of financial statements. For example, Campbell and Yeung (2017) examined comparability signals to investors, or Choi et al. (2019) documented stock price informativeness effects by accounting comparability. Young and Zeng (2015) documented that accounting comparability improves peer-based valuation performance and facilitating the prediction of future market-to-book multiples.

Imhof et al. (2017) argued that accounting comparability is a key tenet of accounting because it allows users of financial statements to benchmark a firm against similar firms when distinguishing between alternative investment opportunities. They documented that accounting comparability is associated with a lower cost of capital. In addition, investors in an asymmetric information environment derive more benefits from accounting comparability. Moreover, Chauhan and Kumar (2019) stated that accounting comparability via decreasing information asymmetry facilitates the monitoring of firms' managers. Neel (2017) also showed IFRS adaption leads to improvement in financial reporting quality and accounting comparability; subsequently Tobin's q increases.

Financial reporting quality decreases information asymmetry and agency conflict between managers and other stakeholders. It leads to monitor managerial decision-making (Bushman and Smith, 2001). Accounting comparability has an effective monitoring role, which mitigates agency conflict by improving information environments (Zhang et al., 2020). By reducing agency costs, the firm value increases (Bozec et al., 2010; Berthelot et al., 2012; Li et al., 2016). Accounting comparability improves investor's judgments about firm performance (De Franco et al., 2011). On the other hand, financial statement comparability decreases information asymmetry and the cost of capital (Habib et al., 2017). Moreover, Kim et al. (2016) showed information asymmetry reduces stock price crash risk. So, we conclude comparability as an important qualitative characteristic of financial reporting has a significant role in increasing the stock price by reducing agency costs, information asymmetry, and subsequently the cost of capital. Therefore, the second research hypothesis formulates as follows:

Hypothesis 2. Accounting comparability is positively associated with firm value.

On the other hand, stock liquidity has been introduced as one of the main factors determining the firm value (Gao et al., 2019; Fang et al., 2009). Managers who do not consider stock liquidity, finance at the high cost of capital, and miss out on good investment opportunities (Butler et al., 2005). Stock Liquidity facilitates the entry of major investors into the capital market and consequently intensifies regulatory activities. In this situation, better management is applied to companies (Chordia et al., 2000). Also, stock liquidity reduces the cost of capital (Hsu et al., 2020). Also, when the cost of capital decreases, firm value increases (Hail and Leuz, 2009; Harjoto and Jo, 2015). So. The third hypothesis formulates as follows:

Hypothesis 3. Accounting comparability moderates the relationship between stock liquidity and firm value.

According to the developed hypotheses, the relationships between the studied variables are shown in Figure 1.

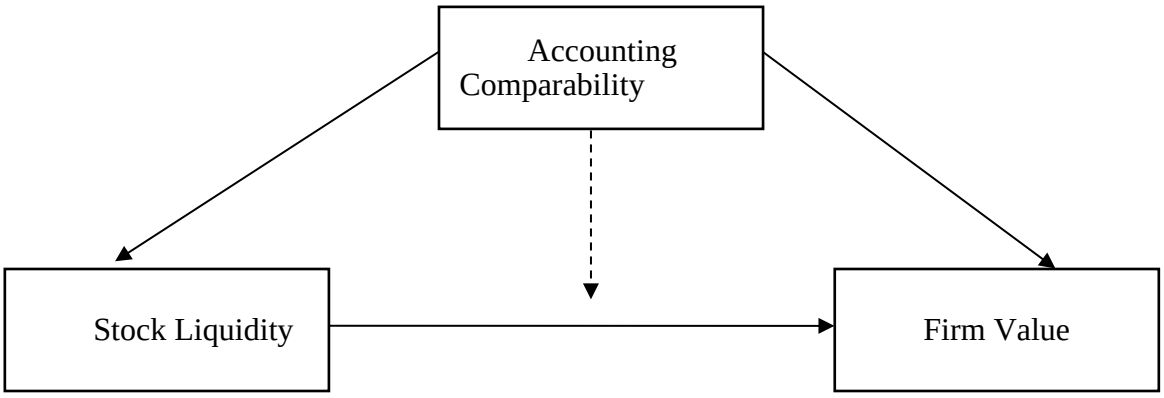

Figure 1. The conceptual relationship between accounting comparability, stock liquidity, and firm value

4. Model development and data

4.1. Accounting comparability measure

We use the empirical methodology of De Franco et al. (2011) to estimate firm-year level accounting comparability. De Franco et al. (2011) believe that if two accounting systems produce similar financial statements for the same set of *economic events*, the two systems are comparable. To measure comparability, they presented a model that focuses on the outputs of the accounting system. In this model, earnings and returns information are used to measure the comparability of accounting numbers. The rationale for their argument is that if two accounting systems are similar and comparable, their output should also be comparable. For each firm-year, we first estimate the following equation (1) using the 16 previous quarters of data for all of the firms in the industry:

$$Earnings_{it} = \alpha_i + \beta_i Return_{it} \varepsilon_{it} \tag{1}$$

where, *Earnings* is the ratio of quarterly net income to the beginning market value of equity, and *Return* is the stock price return during the quarter. These firm-specific regressions following equation (1) are conducted to estimate $\hat{\alpha}_i$ and $\hat{\beta}_i$ at the point of time t. The expected earnings will then be calculated for each of the quarters as described in Equation (2) and for each of the firms in the industry as follow:

$$\begin{aligned} E\left(Earn\right)_{iit} &= \hat{\alpha}_i + \beta_i Return_{it}\,; \\ E\left(Earn\right)_{ijt} &= \hat{\alpha}_j\ \beta_j Return_{it} \end{aligned} \tag{2}$$

The more the accounting systems of two firms are comparable, the smaller the difference between two expected earnings. Accordingly, the accounting comparability between firms i and j (*CompAcctijt*) is defined as follows (De Franco et al., 2011):

$$AccCompijt = -1/\ 16 \times \sum_{t-15}^{t} \left| E\left(Earn_{iit}\right) - E\left(Earnijt\right) \right| \tag{3}$$

We estimate AccComp for each firm i - j combination for J firms within the same 2-digit Standard Industrial Classification (SIC) code conducted by Tehran Stock Exchange (TSE) in year t. then, we rank all these combinations in descending order for each firm i. we construct AccComp by taking the industry median in a given year.

4.2. Stock Liquidity measures

Previous studies have introduced several criteria for measuring liquidity. Aitken and Winn

(1997) also showed little or no correlation between many of these criteria. Aitken and Comerton-Forde (2003) divided liquidity measures into two categories: trade-based measures and order-based measures. They argued that trade-based measures concentrate on past times and do not provide information about the future. Consistent with recent research (Amihud,2002; Korajczyk and Sadka,2008; Jayaraman and Milbourn, 2012; Hsu et al., 2020), the following criteria have been used to measure stock liquidity in this study:

The daily average of the absolute value of return divided by volume for stock *i* in year *t* (this criterion proposed by Amihud (2002)):

$$Amihud_{it} = \frac{1}{d_{it}} \frac{\sum_{d=1}^{d_{it}} |r_{idt}|}{\sum_{d=1}^{d_{it}} v_{idt}} \tag{4}$$

where, r_{idt} is the daily return on stock *i* on day *d* of year *t* and its absolute value is considered, V_{idt} is the daily trading volume of stock *i* on day *d* of year *t*, and d_{it} is the number of trading days in year *t*.

Stock (tradable) turnover ratio: Following previous research (Datar et al., 1998; Becker-Blease and Paul, 2006; Jayaraman and Milbourn, 2012; Ahmed and Ali, 2017), this ratio has been selected as one of the stock liquidity indicators as follows:

$$LI_{it} = \frac{1}{d_{it}} \sum_{d=1}^{d_{it}} \frac{TS_{it}}{TSM_{it}} \tag{5}$$

where, TS_{it} is the daily trading volume of stock *i* in year *t*, TSM_{it} is the volume of tradable (issued) stocks, and d_{it} is the number of trading days in year *t*.

Free float ratio: consistent with Wang and Xu (2004), Chan et al. (2004), and Ding et al. (2016), we use this criterion as an indicator for stock liquidity.

4.3. Firm Value measure

We use Tobin's q for measuring firm value. Tobin's q is the book value of total assets minus the book value of equity plus the market value of equity, all scaled by total assets.

4.4. Research models for hypothesis testing

For examining the first hypothesis (the relationship between comparability and stock liquidity), the following model is used:

$$\begin{aligned} Liqit = {} & \alpha_0 + \beta_1 AccComp_{it} + \gamma_1 Size_{it} + \gamma_2 Leverage_{it} + \gamma_3 ROA \\ & + \gamma_4 FRQ_{it} + \gamma_5 Age_{it} + \gamma_6 Audtype_{it} + \gamma_7 CFO_{it} + \gamma_8 MB_{it} \\ & + \gamma_9 growth_{it} + Industry\ \&YearDummy + \varepsilon_{it} \end{aligned} \tag{6}$$

where, the dependent variable is stock liquidity (Liq_{it}), as defined above. $AccComp_{it}$ is our measure for accounting comparability calculated based on De Franco et al. (2011). We also control for factors that prior research shows their impacts on our dependent variable (Kale and Loon, 2011; Neel, 2017; Schoenfeld, 2017). Specifically, we control for *Size* (average of total assets and sales), $Leverage_{it}$ (ratio of total debts to total assets), ROA_{it} (ratio of net income to total assets). FRQ_{it} (Following Kothari et al. (2005)), we estimate discretionary accruals as a criterion for measuring financial reporting quality), Age_{it} (firm's age, measured as ln (Age)),

$Audtype_{it}$ is the type of auditor (1 if the auditor is the Iranian Audit Organization (IAO) or MofidRahbar firm, 0 otherwise), *CFOit* (operating cash flows deflated by lagged total assets), MB_{it} (ratio of market value to book value of equity), $Growth_{it}$ (percentage change in sales over the years t and t-1).

For the test of the second and third hypotheses, the following model is used:

$$\begin{aligned} Tobin's\,Q\,it = {} & \alpha 0 + \beta 1 AccCompit + \beta 2 Liqit + \beta 3 AccCompit \;\; Liqit \;\; + \gamma 1 Sizeit \\ & + \gamma 2 Leverageit + \gamma 3 ROAit + \gamma 4 FRQit + \gamma 5 Ageit \;\; + \gamma 6 Audtypeit + \gamma 7 CFOit \\ & + \gamma 8 MBit + \gamma 9\, growthit \;\; + \; Industry \;\&Year Dummy + \varepsilon it \end{aligned} \tag{7}$$

4.5. Sample selection

We select our sample from all firms listed on the TSE during the 2016-2020 period after excluding financial and insurance firms and firms with missing data for our models. Our final sample consists of 540 firm-year observations from 108 firms. We extracted our data from the Research, Development, and Islamic Studies (RDIS) and the Comprehensive Information System of Listed firms (CODAL) databases.

5. Results

5.1. Descriptive statistics

Table 1 reports the descriptive statistics for our models. All continuous variables winsorise at the 1st and 99th percentiles. As reported, the mean for Tobin's q is 1.676, (This means that on average, the market value of the studied sample is 1.76 times their book value), for Amihud ratio is 0.013, for tradable turnover ratio (LI) is .034, and for free float is 0.176 (This means that only 17.6% of the shares of the studied firms have traded in the capital market. One of the reasons for the inefficiency of the Iranian capital market can be attributed to this issue). The mean for leverage is 0.577That means 57.7% of the firm's assets are financed from debts. The mean for ROA is 0.099, that is, the average ratio of earnings to total assets in the studied firms is 9.9%. Also, the average index for audit type is 0.284, which represents 28.4% of the studied firms that have been audited by the Iranian Audit Organization (AO) and MofidRahbar firm. The average increase in sales revenue of the studied companies each year compared to the previous year was 13.1%.

Table 1. Descriptive Statistics (n=540)

variable	Mean	Median	Min	Max	skewness	kurtosis	SD
Tobin's Q	1.676	1.486	1.012	2.874	0.836	2.438	0.599
$Amihud_{it}$	0.013	0.013	0.001	0.027	0.155	1.845	0.007
LI_{it}	0.034	0.008	0.0002	0.109	0.938	2.124	0.043
$Free\ Float_{it}$	0.176	0.150	0.006	0.477	0.750	2.640	0.132
$AccComp_{it}$	-0.057	-0.047	-0.117	-0.028	-0.964	2.732	0.029
$Size_{it}$	14.532	14.478	13.202	16.339	0.447	2.257	0.958
$Leverage_{it}$	0.577	0.592	0.295	0.825	-0.183	1.890	0.171
ROA_{it}	0.099	0.085	-0.046	0.271	0.263	1.843	0.012
FRQ_{it}	0.393	0.363	0.135	0.737	0.402	1.968	0.095
Age_{it}	2.776	2.772	2.565	2.944	-0.338	2.178	0.117
$Audtype_{it}$	0.284	0	0	1	0.954	1.911	0.252
CFO_{it}	0.116	0.106	-0.009	0.278	0.381	2.031	0.031
MB_{it}	3.947	2.751	0.197	11.359	0.924	2.632	1.557
$Growth_{it}$	0.131	0.107	-0.221	0.589	0.428	2.179	0.250

5.2. Multivariate analysis

5.2.1. Testing the first hypothesis

Table 2 reports the regression results of testing hypothesis 1, using Amihud ratio, and tradable turnover ratio (LI), and free float as measures of stock liquidity, respectively. It should be noted that the Amihud ratio measures the lack of stock liquidity. Therefore, it is predictable that the coefficient of variable accounting comparability in column 1 is negative. As reported, the coefficient of *AccComp* is negative (-0.241) in column 1, where the Amihud ratio is used for measuring stock liquidity, but this coefficient is not significant. However, the coefficient of interest variable (*AccComp*) in columns 2, 3 is positive and significant (0.181 at 95% significance level and 0.125 at 99% significance). In the abstract, our findings document the positive and significant relationship between comparability with stock turnover and the percentage of free float. These results provide support for the first hypothesis, which comparability facilitates optimal investment decisions and decreases agency costs and information asymmetry. Subsequently, comparability increases stock liquidity. In short, accounting comparability is related to stock liquidity positively. Other results of this test include a positive and significant relationship between firm size (*Size*), firm profitability (*ROA*), firm age in the stock market (*Age*), and sales growth rate (*Growth*) with stock liquidity.

Table 2. The results of testing H1

$$Liqit = \alpha 0 + \beta 1 AccCompit + \gamma 1 Sizeit + \gamma 2 Leverageit + \gamma 3 ROAit + \gamma 4 FRQit + \gamma 5 Ageit + \gamma 6 Audtypeit + \gamma 7 CFOit + \gamma 8 MBit + \gamma 9 growthit + \varepsilon it$$

		(1)		(2)		(3)	
		Liq_{it} = Amihud		**Liq_{it} = LI**		**Liq_{it} = Free Float**	
variable	**Expected sign**	**β**	**t-Stat**	**β**	**t-Stat**	**β**	**t-Stat**
α_0	?	0.073***	2.176	0.112***	4.089	0.029***	3.563
$AccComp_{it}$	–	-0.241	-0.899				
	+			0.181**	2.069	0.125***	2.891
$Size_{it}$	?	*0.003	1.892	0.007**	2.585	0.009***	3.949
$Leverage_{it}$	?	-0.852	-0.539	-1.205	-1.014	-0.013	-0.440
ROA_{it}	?	0.011***	2.707	0.207***	2.621	0.082**	2.203
FRQ_{it}	+	0.009	1.482	0.324	0.899	0.236*	1.652
Age_{it}	+	0.021***	4.412	0.094**	2.218	0.012***	3.946
$Audtype_{it}$	?	0.408**	2.315	0.389**	2.417	0.364*	1.766
CFO_{it}	+	0.008	0.756	0.013	0.202	0.401	0.374
BM_{it}	?	-0.007	-1.557	-0.197	-0.703	-0.233	-1.283
$Growth_{it}$	+	1.801***	2.981	5.985*	1.835	4.998*	1.822
Adjusted R^2		0.308		0.489		0.461	
Durbin-Watson Statistics		1.893		1.780		1.907	
F Statistics		27.769***		52.579***		47.100***	

*** ,**and * respectively, is significant at 1%, 5% and 10%.

The results are based on the pooled ordinary least squares regressions with standard errors corrected for firm-level clustering.

5.2.1. Testing the second and third hypotheses

We report the results for our H2 and H3 in Table 3. As reported, the coefficient for our variable of interest (*AccComp)* is positive and significant in columns 1, 2, and 3 (p-value < 0.05). As can be seen in column 1, the coefficient of comparability is positive and significant (0.542 at 95% significance). This coefficient is also positive and significant when the stock turnover ratio (LI) is used (0.684 at 99% significance). Finally, the coefficient of Free float is

also positive and significant (0.092 at 95% significance). These results provide support for our second hypothesis that accounting comparability intensifies the firm value. However, different stock liquidity indices do not have a significant relationship with firm value. Moreover, the coefficient of β_3 ($AccComp_{it} \times Liq_{it}$) is not significant, which means accounting comparability does not moderate the relationship between stock liquidity and firm value. In other words, the third hypothesis of the research is not confirmed. Other results include the lack of a significant relationship between the Amihud ratio and free float with firm value. The stock turnover ratio (*LI*) has a positive and significant relationship with the firm value (0.036 at 90% significance).

Table 3. The results of testing H2, H3

$$Tobin's\,Q\,it = \alpha 0 + \beta 1 AccCompit + \beta 2 Liqit + \beta 3 AccCompit\,Liqit + \gamma 1 Sizeit + \gamma 2 Leverageit + \gamma 3 ROAit + \gamma 4 FRQit + \gamma 5 Ageit + \gamma 6 Audtypeit + \gamma 7 CFOit + \gamma 8 MBit + \gamma 9\, growthit + \varepsilon it$$

		Liq_{it} = Amihud (1)		Liq_{it} = LI (2)		Liq_{it} = Free Float (3)	
Variable	**Expected sign**	**β**	**t-Stat**	**β**	**t-Stat**	**β**	**t-Stat**
α_0	?	-0.211*	-1.766	0.277***	5.649	2.851***	5.671
$AccComp_{it}$	+	0.542**	2.125	0.684***	2.707	0.092**	2.297
Liq_{it}	–	-1.413	-0.554				
	+			0.036*	1.748	0.003	1.397
$AccComp_{it} \times Liq_{it}$	?	-0.585	-1.081	0.019	1.342	-0.001	0.929
$Size_{it}$	?	0.087	1.493	.085*	1.662	0.079	1.333
$Leverage_{it}$	?	-0.208	-1.212	-0.229	-1.330	-0.197	1.144
ROA_{it}	?	2.264***	4.572	2.231***	4.583	2.079***	4.893
FRQ_{it}	+	0.021**	2.552	0.029**	2.114	0.023*	1.956
Age_{it}	+	0.136	1.142	0.077	0.953	0.408**	2.138
$Audtype_{it}$	?	1.029	0.823	0.821	0.642	0.781	0.975
CFO_{it}	+	0.566***	2.781	0.341**	2.028	0.147***	3.920
BM_{it}	?	-0.133	0.385	-0.169	0.388	-1.142	0.541
$Growth_{it}$	+	2.661*	1.863	1.702**	2.189	5.462**	2.373
Adjusted R^2		0.295		0.292		0.293	
Durbin-Watson Statistics		2.309		2.322		2.331	
F Statistics		23.554***		23.230***		23.338***	

*** ,**and * respectively, is significant at 1%, 5% and 10%.

The results are based on the pooled ordinary least squares regressions with standard errors corrected for firm-level clustering.

6. Robustness checks and additional tests

To check the robustness of our reported results, we perform the following additional analyses. First, we studied the relationships between variables to confirm hypotheses with a one-year time lag. Table 4 shows the results for testing H1in this condition. The results of this test are similar to the results presented in Table 2. That is, among the liquidity indices, two indicators of liquidity turnover (*LI*) and free float ratio (*free float*) have a positive and significant relationship with accounting comparability. It should be noted that the *adjusted* R^2 according to columns 2 and 3 in Table 4 is much higher than in Table 2 (0.406 and 0.423 in comparison with 0.292 and 0.293). This means that the effect of comparability on stock liquidity reflects with delay. Therefore, it can conclude that the capital market is not highly efficient. Other results are similar to the results in Table 2.

Table 5 examined the relation between accounting comparability and firm value and its interaction impact on the relationship between stock liquidity and firm value with a one-year time lag. As reported, the coefficient of interest variable ($AccComp$) is positive and

significant in all cases (p-value < 0.01). That is, the second hypothesis is confirmed in a one-year time lag examination, too. However, the adjusted R^2 is not much different from Table3. In addition, based on the results shown in Table 5, accounting comparability does not moderate the relationship between liquidity and firm value, which is consistent with the results shown in Table3. It is important to note that the LI and Free Float indicators have a positive and significant relationship with the firm value (which is not confirmed according to Table 3) and this result can be attributed to the fact that the Iranian capital market considered the positive benefits in firm value (stock prices) with delay.

Table 4. The results of testing H1 with a one-year time lag

$$Liqit = \alpha 0 + \beta 1 AccCompit - 1 + \gamma 1 Sizeit + \gamma 2 Leverageit + \gamma 3 ROAit + \gamma 4 FRQit + \gamma 5 Ageit + \gamma 6 Audtypeit + \gamma 7 CFOit + \gamma 8 MBit + \gamma 9 growthit + \varepsilon it$$

		Liq_{it} = Amihud(1)		Liq_{it} = LI(2)		Liq_{it} = Free Float(3)	
Variable	**Expected sign**	**β**	**t-Stat**	**β**	**t-Stat**	**β**	**t-Stat**
α_0	?	0.056***	2.358	0.087**	2.125	0.071***	3.824
$AccComp_{it}$	–	-0.613	-0.582				
	+			0.179***	3.241	0.208**	2.353
$Size_{it}$	?	**0.011	2.218	0.001**	2.048	0.005***	3.121
$Leverage_{it}$	?	-0.809	-0.472	-1.513	-0.715	-0.149	-0.581
ROA_{it}	?	0.007***	2.981	0.196***	3.704	0.037***	2.952
FRQ_{it}	+	-0.126	0.332	0.269	0.623	0.186	0.441
Age_{it}	+	0.019***	3.812	0.128***	3.920	0.101***	4.512
$Audtype_{it}$	?	0.274*	1.709	0.504*	1.877	0.142**	2.048
CFO_{it}	+	0.004	0.606	0.018	0.638	0.249	0.528
BM_{it}	?	-0.023	-0.887	-0.012	-0.878	-0.309	-1.541
$Growth_{it}$	+	1.653*	1.956	1.812**	2.315	7.049	1.610
Adjusted R^2		0.271		0.406		0.423	
Durbin-Watson Statistics		1.903		2.013		1.809	
F Statistics		23.374***		37.841***		40.514***	

*** ,**and * respectively, is significant at 1%, 5% and 10%.

The results are based on the pooled ordinary least squares regressions with standard errors corrected for firm-level clustering.

Table 5. The results of testing H2, H3 with a one-year time lag

$$Tobin's\,Q\,it = \alpha 0 + \beta 1 AccCompit - 1 + \beta 2 Liqit - 1 + \beta 3 AccCompit - 1 Liqit - 1 + \gamma 1 Sizeit + \gamma 2 Leverageit + \gamma 3 ROAit + \gamma 4 FRQit + \gamma 5 Ageit + \gamma 6 Audtypeit + \gamma 7 CFOit + \gamma 8 MBit + \gamma 9 growthit + \varepsilon it$$

		Liq_{it} = Amihud (1)		Liq_{it} = LI (2)		Liq_{it} = Free Float (3)	
Variable	**Expected sign**	**β**	**t-Stat**	**β**	**t-Stat**	**β**	**t-Stat**
α_0	?	0.018***	2.585	0.306***	4.781	1.039**	1.809
$AccComp_{it}$	+	0.519***	3.920	0.271***	4.546	0.077***	4.005
Liq_{it}	–	-0.809	-0.459				
	+			0.042**	2.218	0.011*	1.923
$AccComp_{it}\times Liq_{it}$	?	-0.404	-1.113	-0.017	-0.872	-0.015	1.008
$Size_{it}$	?	0.063**	1.982	0.117	1.570	0.081	1.147
$Leverage_{it}$	?	-0.367	-0.804	-0.583	-1.010	-0.386	0.980
ROA_{it}	?	1.838***	5.683	1.714***	3.913	2.141***	5.016
FRQ_{it}	+	0.043*	1.778	0.008*	1.683	0.014**	2.163
Age_{it}	+	0.171	0.997	0.041	0.667	0.203	0.991
$Audtype_{it}$	?	0.817	0.540	0.217	0.784	0.914	0.667
CFO_{it}	+	0.327***	3.017	0.309**	2.102	0.389**	2.080
BM_{it}	?	-0.148	0.385	-0.204	0.571	-0.454	0.997
$Growth_{it}$	+	4.845**	2.189	3.209*	1.842	2.987**	2.059
Adjusted R^2		0.331		0.320		0.303	
Durbin-Watson Statistics		2.154		2.107		2.035	
F Statistics		27.668***		26.365***		24.431***	

*** ,**and * respectively, is significant at 1%, 5% and 10%.

The results are based on the pooled ordinary least squares regressions with standard errors corrected for firm-level clustering.

As mentioned, the cost of capital is one of the factors affecting the firm value. In addition, the results of previous research show that accounting comparability affects the cost of capital (Imhof et al., 2017; Huang and Yan, 2020). Therefore, in another additional test, we examined the effect of cost of capital as a moderator of the relationship between accounting comparability and firm value (The cost of capital is measured based on the CAPM model). The results of this test are shown in Table 6. As reported, the coefficient of interest variable ($AccComp_{it} \times CoC_{it}$) is positive and significant in all models. For example, the coefficient of interest variable by column 1 is 0.169 at 95% significance. That is, the cost of capital strengthens the relationship between accounting comparability and firm value. Other results of this test include a negative and significant relationship between the cost of capital and firm value. Other results of this test include a negative and significant relationship between the cost of capital and firm value. Moreover, the coefficient of $AccComp_{it} \times$ Liq_{it} is not significant in all regression models (in columns 1,2,3). That is, accounting comparability does not moderate the positive association between stock liquidity and firm value which is the same as the results presented in Table 5.

Table 6. The moderating effect of CoC on the relationship between comparability and firm value

$$Tobin's\,Q\,it = \alpha 0 + \beta 1 AccCompit + \beta 2 CoCit + \beta 3 AccCompit\,CoCit + \beta 4 Liqit + \beta 5 AccCompit\,Liqit + \gamma 1 Sizeit + \gamma 2 Leverageit + \gamma 3 ROAit + \gamma 4 FRQit + \gamma 5 Ageit + \gamma 6 Audtypeit + \gamma 7 CFOit + \gamma 8 MBit + \gamma 9\,growthit + \varepsilon it$$

		Liq_{it} = Amihud (1)		**Liq_{it} = LI (2)**		**Liq_{it} = Free Float (3)**	
Variable	**Expected sign**	**β**	**t-Stat**	**β**	**t-Stat**	**β**	**t-Stat**
α_0	?	0.047***	4.491	0.647***	4.693	0.781***	3.920
$AccComp_{it}$	+	0.201**	2.248	0.103***	4.901	0.074***	4.627
CoC_{it}	–	-0.013*	-1.784	-0.308**	-2.373	-0.623**	-2.552
$AccComp_{it} \times CoC_{it}$	?	0.169**	2.440	0.127**	2.552	0.148*	1.923
Liq_{it}	–	-0.674	-0.633				
	+			0.019**	2.163	0.073*	1.849
$AccComp_{it} \times Liq_{it}$	?	-0.605	-0.984	-0.099	-0.684	-0.126	-1.390
$Size_{it}$	?	0.047***	3.309	0.083	1.512	0.077	1.116
$Leverage_{it}$	?	-0.255	-1.014	-0.307	-0.862	-0.182	0.731
ROA_{it}	?	1.269***	5.159	1.618***	5.350	2.203***	5.412
FRQ_{it}	+	0.036	1.482	0.011*	1.667	0.028**	2.297
Age_{it}	+	0.408	0.617	0.079	0.918	0.311	0.781
$Audtype_{it}$	?	0.680	0.412	0.364	0.563	0.415	0.631
CFO_{it}	+	0.208***	4.361	0.258**	2.203	0.263**	2.150
BM_{it}	?	-0.188	0.466	-0.241	0.424	-0.401	0.833
$Growth_{it}$	+	2.823**	2.080	3.769**	2.069	2.585**	2.091
Adjusted R^2		0.359		0.348		0.331	
Durbin-Watson Statistics		1.988		2.090		1.981	
F Statistics		31.187***		29.768***		27.668***	

*** ,**and * respectively, is significant at 1%, 5% and 10%.

The results are based on the pooled ordinary least squares regressions with standard errors corrected for firm-level clustering.

7. Conclusion

One of the most important indicators in examining the capital market situation is market liquidity. High liquidity in the securities indicates the success of the market in information transparency and the proximity of securities prices to their intrinsic value. Capital structure, dividend policy, and agency issues are also among the firm's financial issues that can be affected by liquidity; So, in addition to the benefits that liquidity will have directly for investors, it can also create value for firms. Managers who do not consider stock liquidity are financed at a high capital cost and miss out on good investment opportunities. On the other hand, stock

liquidity is also considered one of the main factors determining the firm value (Gao et al., 2019; Fang et al., 2009). Therefore, it is important to examine the factors affecting it.

The main purpose of this study is to investigate the effect of accounting comparability as one of the qualitative characteristics of financial reporting on both stock liquidity and firm value. In addition, its moderation effect on the relationship between liquidity and firm value has been tested. The results show that the accounting comparability has a different impact on different indicators of stock liquidity; in such a way that it has a positive and significant relationship with the stock turnover ratio and the percentage of free float stocks inconsistent with Neel (2017), but it does not have a significant relationship with the Amihud ratio. In addition, accounting comparability has a positive and significant relationship with firm value. On the other hand, the cost of capital intensifies this relationship and has a negative and significant relationship with firm value inconsistent with Harjoto et al. (2015) and Hail and Leuz (2009). The interpretation of this result can be attributed to how the various liquidity ratios are calculated. In this way, increasing the stock turnover ratio can be considered as increasing the volume of traded stocks relative to tradable stocks. Increasing stock trading provides investors with more control over corporate decision-making processes, including project risk issues. Further oversight reduces conflicts of interest between owners and managers and leads to risky but worthwhile projects undertaken by firm managers. On the other hand, the results show that the accounting comparability does not have a significant effect on the Amihud ratio. This result is not without interpretation. As stated, if management is superficial, wrongdoing will increase. Given that the calculation of the Amihud ratio uses stock returns, it can conclude that in this case, the management is more satisfied with keeping the shareholders confident with the return they receive rather than pursuing the firm's goals. Also, based on the constraints imposed on the capital market (In Iran), the daily return in calculating the Amihud ratio has a specific fluctuation range. It cannot reflect all dimensions of the market. In sum, we concluded that the capital market of Iran is not efficient; because, in imperfect markets, less information asymmetry leads to a decrease in the cost of capital and subsequently occurs an increase in firm value.

The results can be interpreted in such a way that comparability leads to a fair presentation of financial statements and meets the information needs of stakeholders. Therefore, the market perceives this as a positive sign and consequently increases the stock liquidity and the firm value. Moreover, these results are also consistent with the argument of Ross et al. (2019) who stated that higher comparability leads to a high level of investor protection.

It can conclude that accounting comparability between firms in an industry reflects the consistency and relevance of firm operations and financial reporting and, as Zhang (2018) has argued, it reinforces the halo effect. In other words, users of financial statements better understand the presentation of economic events in the form of accounting amounts for companies that can compare more information. So, analysis of financial information is facilitated and more liquidity of stocks is provided. In line with the research results, investors are suggested to consider comparability in creating a stock portfolio. In addition, given the role of comparability in liquidity and firm value, it is appropriate for the (Iranian) Securities and Exchange Commission (SEC) to establish mechanisms to encourage companies to adopt consistent procedures in their financial reporting. This approach can also be reinforced by considering the industry in which the company operates.

Finally, it is suggested that other criteria be used in future research to measure the comparability of accounting information. For example, Neel (2017), in addition to using the market approach (Difranco et al. (2011) model), used regression between earnings and future cash flows, as well as regression between accruals and future cash flows to measure the comparability. In addition, it is important to note that net accounting profit (earnings) is also

affected by various accounting practices, and it is appropriate to use cash flow information that better reflects the operational aspect of the financial performance of businesses. On the other hand, in qualitative research and through the development of a questionnaire, the importance of users of financial statements as a feature of comparability and the strategies used to measure this feature can also be studied. The effect of moderating variables such as corporate governance mechanisms should also be tested. It is also appropriate to examine the simultaneous impact of other qualitative characteristics of financial information, including comprehensibility and relevance.

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