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The Study of Accumulated Depreciation and Stock Prices in Iranian Industries

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Abstract:

The study of relationships between accumulated depreciation expense and stock prices, is the subject which has been always considered by financial field researchers. The purposes of present study are providing the required information for decision making and in order to accessing this subject, disclosure of financial information is necessary. In this study the relation between accumulated depreciation expense and stock prices has been considered. The statistical society of this study has been conducted in eight Iranian industries of 800 observation which are the companies that are listed at Tehran stock exchange, for a period of 6 years from the April 2008 till the end of March 2013. To answer the question: Whether accumulated depreciation of assets affects the stock price? This study includes of a hypothesis, that whether accumulated depreciation of assets affects the stock price. The available information in Tehran stock exchange has been applied for accounting the hypothesis variables. Regression and analysis of the combined data (panel data) correlation coefficient has been used for hypothesized experiment. According to data of study, the hypothesis experiment has been rejected in reliance level %95. This conclusion has been resulted that there is no significant relation between accumulated depreciation expense and stock prices.

Keywords: Accumulated Depreciation, Financial, Stock exchange, Stock price

1. Introduction

According to Harold Averkamp (2003) Accumulated depreciation is the total amount of a plant asset's cost that has been *allocated* to depreciation expense since the asset was put into service. Accumulated depreciation is associated with constructed assets such as Buildings, machinery, equipment, furniture, fixtures, computers, outdoor lighting, parking lots, cars, and trucks are examples of assets that will last for more than one year, but will not last indefinitely. During each accounting period (year, quarter, month, etc.) a portion of the cost of these assets is being used up. The portion being used up is reported as Depreciation Expense on the income statement. In effect depreciation is the transfer of a portion of the asset's cost from the balance sheet to the income statement during each year of the asset's life. The amount of accumulated depreciation for an asset will increase over time, as depreciation continues to be charged against the asset. The original cost of the asset is known as its gross cost, while the original cost of the asset, less the amount of accumulated depreciation and any impairment, is known as its net cost or carrying amount. When the asset is eventually retired or sold, the amount in the accumulated depreciation account relating to that asset is reversed, as is the original cost of the asset, thereby eliminating all record of the asset from the company's accounting books. Calculating accumulated depreciation is a simple matter of running the depreciation calculation for a fixed asset from its acquisition date to its disposition date. However, it is useful to spot-check the calculation of the depreciation amounts that were recorded in the general ledger over the life of the asset, to ensure that the same calculations were used to record the underlying depreciation transaction.

That meaning is captured by International Accounting Standards Committee (IASC) (1989) "Depreciation Accounting," which defines depreciable assets as "assets that (a) are expected to be used during more than one accounting period, and (b) have a limited useful life, and (c) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes."

Business Dictionary (2014) Defines the accumulated depreciation as Total depreciation on a tangible asset accumulated up to a specified date. This amount is subtracted from the original cost or valuation of the asset to arrive at its book value. Accumulated depreciation amount represents only the expired value of an asset; it is neither cash nor any other type of asset that can be used to buy another asset. Also called accrued depreciation. For recording of depreciation, following two heads of accounts are used: a) Depreciation Expense Account. b) Accumulated Depreciation Account.

Bragg Steven (2014). Says accumulated depreciation is the total amount of depreciation for a fixed asset that has been charged to expense since that asset was acquired and made available for use. The accumulated depreciation account is an asset account with a credit balance (also known as a contra asset account); this means that it appears on the balance sheet as a reduction from the gross amount of fixed assets reported. The amount of accumulated depreciation for an asset will increase over time, as depreciation

continues to be charged against the asset. The original cost of the asset is known as its gross cost, while the original cost of the asset, less the amount of accumulated depreciation and any impairment, is known as its net cost or carrying amount.

Steven A., (2014) Explains, Depreciation expense account contains the depreciation of the current year. Accumulated depreciation contains the depreciation of the asset from the financial year in which it was bought. Depreciation of the following years in which asset was used, is added up in this account. In other words, this head of account shows the cost of usage of the asset up to the current year. Depreciation account is charged to profit & loss account under the heading of Administrative Expenses.

In the balance sheet, fixed assets are presented at written down value,

i.e. $WDV = \text{Actual cost of fixed asset} - \text{Accumulated Depreciation}$ and Journal entry for the depreciation is Debit: Depreciation Account, Credit: Accumulated Depreciation Account.

In this connection American Institute of Certified Public Accountants (AICPA) (1953) defines Depreciation Accounting in its Accounting Research Bulletin, as "a system of accounting which aims to distribute the cost or other basic values of tangible capital assets, less salvage, if any, over the estimated useful life of the unit (which may be a group of assets) in a systematic and rationale manner. It is a process of allocation, not of valuation.

Investopedia (2014) A closer look at depreciation should remind investors that improvements in earnings per share and book value can, in some cases, result from little more than strokes of the pen. Earnings and net asset value that are boosted thanks to the choice of depreciation assumptions have nothing to do with improved business performance, and, in turn, don't signal strong long-term fundamentals.

Technical Committee Audit Organization of I.R. Iran (1992) defines depreciation as a systematic allocation possible depreciation amount of an asset during its useful life, which "possible depreciation amount" refers to total cost of asset or other finance amounts replacement total cost of asset after deducting its residual value.

Internal Revenue Service (2012) Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property. It is an annual allowance for the wear and tear, deterioration, or obsolescence of the property.

According to Nicholas Oulton and Sylaja Srinivasan (2003) Explanation, Depreciation is also called capital consumption by national income statisticians. If depreciation is subtracted from gross investment, the result is usually called net investment. But if depreciation and replacement are not the same, then net investment so defined does not equal the increase in the VICS. There is one case, however, where aggregate depreciation and aggregate replacement are equal in value, namely when depreciation is geometric.

Welsch, Glenn A., and Zlatkovich, Charles T., (1989) despite its widespread use, depreciation has no single, universal definition. Economists, engineers, the courts, accountants, and others have definitions that meet their particular needs.

Welsch, Glenn A., Anthony, Robert N., and Short, Daniel G. (1984) explains Assets are depreciated by a variety of methods, including the following: 1. Straight-line method, 2. Usage methods, 3. Decreasing-charge methods, 4. Interest methods, 5. Other methods:

Carmichael D. R., Whittington O. Ray, Lynford Graham (2009) written that each year's depreciation charge is calculated by the following formula, where n is the remaining service life of the asset in years and i is the assumed rate of interest:

$$\text{Depreciation} = \frac{\text{Cost of asset less net residual value}}{\text{Ordinary annuity of } n \text{ payments of 1 at } i}$$

Hendriksen (1992) says that the most commonly accepted definition of depreciation is that "it is a systematic and rational method of allocating costs to periods in which benefits are received.

Anthony and Reece, (1994) have defined the term depreciation as follow, they said, "with the exception of land, most items of plant and equipment have a limited useful life; that is, they will provide service to the entity over a limited number of future accounting periods. A fraction of the cost of the asset is therefore properly chargeable as an expense in each of the accounting periods in which the asset provides service to the entity. The accounting process for this gradual conversion of plant and equipment capitalized cost into expense is called depreciation.

In the words of Maheshwari S.N., (1999) he said depreciation is nothing but "that portion of the cost of the assets that is deducted from revenue for assets services used in the operation of a business." Further, depreciation has been defined as "the allocation of total cost of the asset as a business expense of the various years of its useful life.

Paton (1962) explains in this regard, notwithstanding many articles consider depreciation as something secret and discussible there is no dizzying and complicated thing about it. Paton introduces depreciation as unabsorbed value of the properties or the expense appropriated for the assets in a period and writes; the periodic expense is the depreciation of the establishments, equipment's and properties used in commercial operations to be stated as money unit. He considers depreciation as the used capacity of the properties.

Wolk and Tearnly (1947) stated about depreciation in the book, Theory of Accounting, as follows: The depreciable or finite asset is prorated on its useful life to have the depreciation of historic expense or the cost price of the purchase. The depreciation is allocated in different ways without any defined discipline; the ways include direct line, total years, and the remainder of discount or producing goods units. By no means, there is an influential conditions confirming one way for a special case.

Causes For Depreciation

Thukaram Rao, M.E., (2006). defines the following are the causes for depreciation: Wear and Tear, Effect of time, Depletion, Obsolescence, Accident and Permanent fall in the market value, and the objects of depreciation is for serving the following objectives: For proper determination of profits, for ascertainment of cost of Production, for replacement of Assets, For meeting legal requirement In the same time factors to be taken into account while calculating depreciation: (a) original cost of the asset. (b)

The estimated scrap or residual value of the asset. (c) The estimated life of the asset. (d) The chance of the asset becoming obsolete. Depreciation can be recorded in the books of accounts by two different methods: (a) When a provision for depreciation account is maintained, (b) When provision for depreciation account is not maintained: Under this method the amount of depreciation is debited to the depreciation account and credited to the asset account. The asset account thus appears in the books at written down value. And the various method of providing depreciation are as (A) Uniform charge method, (i) Fixed Installment method. (ii) Depletion method, (iii) Machine hour rate method. (B) Declining charge method, (i) Diminishing balance method. (ii) Sum of year's digits method, (iii) Double declining method.

Welsch, Glenn A., and Zlatkovich, Charles T., (1989) stated that, Property, plant, and equipment used by a business in the production of goods and services is a depreciable asset. That is, its cost is systematically reduced by charges to goods produced or to operations over the asset's estimated service life.

2. Review of Literature

Gore and Statt (1998) tested the depreciation data of some properties companies for 597 properties observation in 1991-96. They found the funds resulted from properties loss or profit operations are considerably in relation to the shares returns while the depreciation is not so and the shares abnormal return has no significant relation with the depreciation expense, but the shares cost has significant relation with accumulated depreciation and should be noted that previous studies have forgotten the role of depreciation expense played by each property company.

Vincent (1999) presented a comprehensive analysis of the data and the ability describing the funds from the operation against other known criteria of the company operation as profit of each share, etc. He used two ways for the levels and the changes concerning the operation criteria to decrease the dependences discussed above and having used the yearly data from 181 property companies he found the funds from each share operation has significant relation with the shares returns, but the profit of each share has not such quality and abnormal return has not any significant relation with the depreciation cost. On the other hand, having used seasonal data of 850 companies he found the profit of each share has significant relation with the shares returns, but the funds from operation are not so.

Hendriksen, E. S. (1992) studies shows that depreciation is first allocation of property and equipment valuation process to the use periods that is classification and separation of costs and allocation a part of it to the period of times.

Kalantari (1994) studies indicate that by collecting various opinions within frame of depreciation accounting from domestic and foreign scholars, in the specific four dimensions as:

- Depreciation as a reduction in price,
- Depreciation as physical deterioration,
- Depreciation as devaluation,
- Depreciation as cost allocation and then interpret the relationship between costs and incomes.

Barth, Cram, and Nelson (2001) show that the depreciation item may predict future cash flows and maintains useful accrual information.

Mahdavi and sharifinia, (2002) In their studies found that in general 79 percent of respondents agree that there is mismatch between depreciation ratios in the depreciation's law of direct tax law with accounting principles and standards, and 90 percent agreed with this subject which Iranian companies just use rates reflected in the direct tax law as criteria for calculating depletion.

Kang (2010) in his study has paid attention to the review information content and assessment between relevance of depreciation in state and non-estate industry, and results are as;

1) Between shares returns and depreciation cost there is no any relation. 2) Relation between shares return and depreciation cost has no difference between estate and non-estate companies. 3) There is no relationship between stock price and accumulated depreciation. 4) The relationship between stock price and accumulated depreciation in the estate and non-estate companies is different. 5) There is no relationship between gain and loss of sales and accumulated depreciation of sold property. 6) There is a relationship between gain and loss resulting from sales and accumulated depreciation of property in the estate and non-estate companies. 7) There is no relationship between future earnings and accumulated depreciation exists. 8) The relationship between future income and accumulated depreciation between estate and non-estate companies are different.

RezaZ, Farzad F and Hoda J. (2013) They studied of 94 companies from 2006 to 2010 and used the simple and multivariable regression statistical techniques: Chow and Hausman Test were used to test the hypotheses also they applied 'F' and 'T' statistics. The study findings showed there is a significant relation between next profits and the accumulated depreciation.

3. Problem of the Study

This study will test relationship between share price and returns with depreciation cost and accumulated depreciation of property, and briefly evidences with use of capital market data will be tested to answer study's main question. Whether accumulated depreciation of assets affects the stock price?

4. Research Hypothesis

In light of the above mentioned question, the study attempts to test the following hypothesis:
Relationship between accumulated depreciation and stock price does not exist.

4.1. Scope of the Study

The scope of this study includes two different dimensions as follows:

- Time scope; considering information close to the time of study and availability of them, for a period of 6 years from the April 2007 till the end of March 2013.
- Place Scope; studies the 800 companies listed at Tehran Stock Exchange and their financial information is used for purpose of calculating study's variables.

4.2. Research Method

The prime aim of the study is to review position and information content of depreciation cost and accumulated depreciation. In this regard, we review and analyze the relationship between accumulated depreciation and stock price by the price and returns models, the aim of this investigation and reviews is, changing attitudes towards depreciation and information content of depreciation, that will cause enriching financial and accounting literatures from aspect of relevance of depreciation and its information content in the capital market. The study is the population consists of eight Industries that are Iron, Automobile, Chemical, Tiles, Metal, Food & beverage, Pharmacy Cement & stucco from all that 800 companies were accepted and list in the Tehran Stock Exchange. According to that the systematic removal method has been used in this research the following conditions have been considered in terms of statistical community. The year, for the purpose of present study is 6 financial year i.e. 2007-08 means from 1st April 2007 to 31st March 2013. And during the investigation their financial year has not changed.

Corporate activity in the Stock, temporarily or permanently should not be stopped during research period. Financial information of the company should completely be available. Investment companies, banks and leasing companies because of their special features are not among the statistical community. The research method in this study is the Theoretical basics related to subject to be extracted from internal and external sources and presented, and then to test the hypothesis, the field method is used, therefore, to extract the necessary information for companies, exchange information databases, journals, stocks reports, and the software of Microsoft Excel and "Tasbirpardaz" and "Rah-avard-e-novin", are used for calculating and SPSS software for statistical tests of coefficients to obtain necessary values for statistical analysis. The study investigated meaningfulness of whole multiple variable regressions according to the F statistic and several independent variables based on the T statistic. It should be noted that certainly the depreciation expense has information content the data in net profit and by virtue of the Gore and Statt model (1998). If this relation is proved, it may conclude that the shareholders who pay attention to the appended notes and naturally to the depreciation cost they may benefit from the advantages of both abnormal and normal returns. By virtue of the accounting principles long term properties are evaluated as fixed asset. The accumulated depreciation of these assets indicates the corroded, unusable and out of order part which influences surely the production and next profits (Kang, 2010). On this basis the models examined in current study are as follows:

$$AR = \alpha_0 + \alpha_1 \Delta FFO + \alpha_2 \Delta DEP + \alpha_3 \Delta GAIN + \alpha_4 \text{LOGMV}_{t-1} + \alpha_5 \text{BM}_{t-1} + \epsilon$$

Where:

- AR = Abnormal return
- FFO = The funds from the operations
- DEP = Depreciation
- GAIN = Gross profit
- Log MV = Natural logarithm of market value equal to company size
- BM = Book to market value
- Second model, Next profits:
- $\text{SALE} = \gamma_0 + \gamma_1 \text{NOA} + \gamma_2 \text{ACCUDEP} + \omega$ (2)
- Where:
- NOA = Net Operating Assets.
- ACCUDEP = Accumulated depreciation.

The variables to be examined in the study: is log MV (Logarithm of market value). BV (Book value) of equity of each share and the ratio of BV to MV (Market value) as the secondary variables and depreciation expense and accumulated depreciation as the dependent variables.

Depreciation expense and change in it:

Depreciation expense is total depreciation of visible and invisible fixed assets in fiscal year.

It is possible to calculate the change in depreciation expense of each share as follows:

Depreciation cost of previous year - depreciation cost in current year / price at the end of fiscal year X Nos. of shares in previous fiscal year

Log MV (Natural logarithm of market value):

Log MV of equity is calculated as follows (Kang, 2010):

$\ln(\text{price at the end of fiscal year X Nos. of usual shares in previous year})$

BM (Book to market value):

BM is calculated as follows:

$\text{Equity of previous fiscal year} / \text{price at the end of fiscal year X Nos. of shares in previous year}$

Accumulated depreciation is calculated as follows (Kang, 2010):

$\text{Accumulated depreciation in current year} / \text{total company price}$

The fee of sale growth is calculated as follows (Kang, 2010):

$\text{Net sale of previous year} - \text{net sale of current year} / \text{net sale of previous year}$

4.3. Statistical Methods

The descriptive statistics Method has been used for all the companies present in the sample and the test of Kolmogorov - Smirnov done has been done separately for each sample to show the normality and abnormality of the data by the help of $\ln(1/v^2)$ which has been figured out in the table below, (Azar, A., Moemeni, (1999).

So that with use of Pearson correlation coefficient, theories of the study tested in the level of 95 percent confidence, and decided regarding approval or rejection of research theories.

Variables	Mean	Median	Mode	Standard Deviation	Variance	Range	Minimum	Maximum
ARI,t	-0.0537	-0.1329	-0.99	0.50542	0.255	2.91	-0.99	1.92
$\Delta DEPI,t$	0.0053	0.0022	-0.08	0.0157	0	0.22	-0.08	0.14
$\Delta FFOi,t$	0.0195	0.017	-0.69	0.16179	0.026	1.91	-0.69	1.23
$\Delta GAINi,t$	-0.0036	0	0	0.08805	0.008	1.61	-0.93	0.68
$LgMVi,t-1$	26.385	26.1529	23.4	1.58159	2.501	9.43	22.12	31.55
$BMi,t-1$	0.5462	0.4346	-0.14	0.40667	0.165	3.43	-0.14	3.29
Pi,t	5350.8	3341	1000	6529.696	42636928	64620	190	64810
ACCUDEP i,t	716.56	589.169	3.3	544.0471	295987.3	3863.6	3.3	3866.9
Nli,t	0.1945	0.1843	-0.83	0.18618	0.035	1.8	-0.83	0.98
BVEi,t	2040.3	1773.89	1397	1144.35	1309539	9565.2	-672.47	8892.8
DIVi,t	725.79	456	300	803.7019	645936.7	5099	1	5100
SGRI,t	0.1589	0.1507	-0.97	0.31586	0.1	2.67	-0.97	1.7
LEVi,t	0.657	0.6677	0.41	0.16936	0.029	1.38	0.15	1.52

Table 1: Descriptive statistics for all companies present in the sample
Descriptive statistics and normality test data for the whole companies present in the sample: (800 reviews)

Dependent Variables	ARI,t		Pi,t	
	Kolmogorov-Smirnov Z	Sig	Kolmogorov-Smirnov Z	Sig
All Industries	1.292	0.071	0.991	0.28
Iron	0.71	0.695	0.523	0.947
Tiles	0.752	0.624	1.152	0.14
Automobile	0.981	0.291	0.982	0.29
Chemical	1.232	0.096	0.686	0.735
Metal	0.567	0.905	1.123	0.097
Food and beverage	0.664	0.77	1.283	0.075
Pharmacy	1.095	0.182	1.069	0.203
Cement & stucco	0.939	0.341	1.137	0.151

Table 2: Normal Test of dependent variables drawn from $\ln(1/v^2)$

Independent Variables	Kolmogorov-Smirnov Z	Sig
$\Delta DEPI,t$	1.174	0.127
$\Delta FFOi,t$	1.375	0.066
$\Delta GAINi,t$	0.571	0.9
$LgMVi,t-1$	1.613	0.081
$BMi,t-1$	1.626	0.075
ACCUDEP i,t	1.166	0.132
Nli,t	1.452	0.201
BVEi,t	1.023	0.062
DIVi,t	1.781	0.083

SGR _{i,t}	1.455	0.065
LEV _{i,t}	1.289	0.163

Table 3(a): Normal Test of independent variables drawn from Ln(1/v²)

Depended Variables	Kolmogorov-Smirnov Z	Sig
ΔDEP _{i,t}	4.485	0
ΔFFO _{i,t}	2.972	0
ΔGAIN _{i,t}	7.693	0
LgMVi,t-1	1.887	0.002
BMi,t-1	2.625	0
ACCUDEP _{i,t}	3.134	0
NI _{i,t}	2.451	0
BVE _{i,t}	3.066	0
DIV _{i,t}	4.018	0
SGR _{i,t}	2.745	0
LEV _{i,t}	1.07	0.202

Table 3(b): Test of Kolmogorov – Smirnoff

Pearson correlation test to confirm or reject theories:

- H₀; between stock price and accumulated depreciation relationship does not exist.
- H₁; between stock price and accumulated depreciation relationship does exist.

Test results for all companies and separately for appropriate industries are given:

Testable Hypothesis	Correlation Between Stock Price and Accumulated Depreciation Does Not Exist	Correlation Between Stock Price and Accumulated Depreciation Does Exist
Industries	H0	H1
All Industries	Contradict	confirm
Iron	confirm	Contradict
Tiles	Contradict	confirm
Automobile	confirm	Contradict
Chemical	Contradict	confirm
Metal	confirm	Contradict
Food & beverage	confirm	Contradict
Pharmacy	Contradict	Confirm
Cement & stucco	Contradict	Confirm

Table 4

Model	AR _{i,t}	ΔDEP _{i,t}	ΔFFO _{i,t}	ΔGAIN _{i,t}	LgMVi,t-1	BMi,t-1
AR _{i,t}	1	-0.04	0.052	-0.034	0.051	-.155*
ΔDEP _{i,t}	-0.04	1	.223*	.196*	-.310*	.369*
ΔFFO _{i,t}	0.052	.223*	1	.201*	-.216*	.278*
ΔGAIN _{i,t}	-0.034	.196*	.201*	1	-.327*	.249*
LgMVi,t-1	0.051	-.310*	-.216*	-.327*	1	-.485*
BMi,t-1	-.155*	.369*	.278*	.249*	-.485*	1

Table 5: Matrix of Pearson correlation test between the variables of returns Model

*Meaningful at 95%

5. Regression Analysis

Regression results for all Companies and for each of the industries without exception shows that by F-test there is a linear relationship between dependent and independent variables. Also by Watson test shows that:

- The errors have the independences and,
- There is no correlation between independent variables.

T-test showed that the depreciation cost and accumulated depreciation in the mentioned models to predict abnormal stock returns and stock price are not meaningful and are excluded from the model.

Durbin-Watson	F	Sig	Adjusted R Square	R	R Square
1.931	3.069	.010	.022	.180	.032

Table 6: Regression result of returns model for all of Companies:

Durbin-Watson	F	Sig	Adjusted R Square	R	R Square
2.042	74.348	.000	.500	.712	.507

Table 7: Regression result of price model for all of Companies

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.025	3.274		0.313	0.754
$\Delta DE_{i,t}$	0.002	0.016	0.008	0.157	0.876
$\Delta FFO_{i,t}$	0.038	0.019	0.095	1.961	0.05
$\Delta GAIN_{i,t}$	-0.003	0.012	-0.013	-0.259	0.796
$LgMVi_{t-1}$	-0.139	0.512	-0.015	-0.271	0.786
BMi_{t-1}	-0.118	0.035	-0.187	-3.386	0.001

Table 8

Dependent Variable: $AR_{i,t}$

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-7.066	0.907		-7.792	0
$ACCUDEP_{i,t}$	-0.022	0.042	-0.018	-0.511	0.61
$NI_{i,t}$	-0.092	0.036	-0.092	-2.556	0.011
$BVE_{i,t}$	0.286	0.058	0.188	4.888	0
$DIV_{i,t}$	0.468	0.026	0.646	17.917	0
$SGR_{i,t}$	0.071	0.027	0.09	2.659	0.008
$LEV_{i,t}$	0.466	0.12	0.14	3.867	0

Table 9: Coefficients

a. Dependent Variable: $Pi_{i,t}$

6. Conclusion

The cost associated with this item in stock prices and abnormal returns are measured and tested. According to this research to test the relationship between accumulated depreciation and depreciation expenses and stock price return is based on a discussion of core funds from operations to net income accounting in previous studies conducted in this study is related to the depreciation of so, if accounting depreciation for obsolescence and destruction of assets is a good indicator as a result, the book value of assets to market value of assets and the depreciation is close to market price and stock return correlation is significant. And if relevant accumulated depreciation and amortization expenses to be approved by the market, the opposite will happen. In this study simultaneously tests for abnormal returns and accumulated depreciation and depreciation expense and stock price have been conducted. The population consists of eight Industries Iron, Automobile, Chemical, Tiles, Metal, Food & beverage, Pharmacy Cement & stucco from all that 800 firms was selected and the result shows that, there is no relationship between abnormal return and depreciation expense. Also in the table Correlation matrix shows that the ratio of book value to market value of equity is capable of the highest correlation with abnormal returns Shown in the table there is a significant correlation between abnormal stock returns and depreciation expense is expected hypotheses are confirmed. In the case of regression analyses, as shown in Tables Depreciation expense was not significant at the 95% confidence level, and the model is eliminated. Results are consistent with previous results Gvratat (1998), Vincent (1999), Kang (2010), which confirms their hypotheses.

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