
Investigation the effect of accounting earnings components on the future earnings prediction and the value of listed companies in Tehran Stock Exchange

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Abstract

Accounting earnings and its related components are among information that is intended to the users of financial statements and they use it in their decisions as an important component and a measurement criterion of many of their expectations. The information related to the earnings components help in prediction of future earnings and is effective on valuing firms. According to the importance of earnings and its components' information containing, the aim of this study is to investigate the effect of accounting earnings on future earnings prediction and enterprise values of listed companies in Tehran Stock Exchange that in this regard, the statistical population of the research are the companies listed in Tehran Stock Exchange and the sample of this research consists of 150 companies member of the Exchange and duration of this research is a 6 years period from 2009 to 2014 and mutually the number of observation is 900. To achieve the objectives of the study and answer research questions, research hypotheses including 6 ones in the two main and subsidiary categories were developed and tested. Also, the results show that the accounting earnings components (accruals and cashes) have significant impact on future earnings prediction and the accounting earnings can be used to predict the future earnings and valuing firms.

Key Words: Accounting earnings, accruals, operating cash flow, future earnings prediction, Enterprise value

Introduction

The main objective of companies and economic units is to make earnings and create value for shareholders; also due to advances in technology and expansion large manufacturing and commercial corporations at the international level and increasing prosperity of stock and exchange markets, an important criterions of performance evaluation of different commercial units' management as well as the assessment of enterprise value is analyzing of the company's reported accounting earnings figures, profitability potential and companies' stock values. Investors, stockholders and trustees' try to act in decisions in

a way to have right prospect from the process of firms' profits so that they gain their expectation of investment

and achieve their specific objectives with taking right and more objective decisions. Meanwhile, prediction of stock profits is an important subject in various fields of decision theory. This prediction helps the stakeholders to improve their decision-making processes and decrease the risk of their decisions. They are interested to estimate their investing's future profits and judge about receiving their future stock dividends. Thus, investors request prediction of earnings and especially request prediction of the earnings of earnings per share. These predictions helps a current shareholders decide to sell or hold his or her shares. An investor before action decide to purchase a stock or decide to invest elsewhere by predicting future cash flow distribution. So outlook in the method of stock profits paying in future and their estimate of enterprise value is the first priority in decisions of investment (Mahdavi and Saberi, 2010).

Problem statement

Earnings report and also earnings components have been under consideration both historically and both in financial reporting. Professional accountant, financial analyzers and university researchers often predict future profits and cash flows using present earnings components. Financial bills are the main product of financial reporting system. From long time ago, accounting earnings that is a worthy character in financial bill sets as a criterion for evaluation the company performance and consequently logical decision making has been under the consideration of financial bills users, especially actually and potential investors. Accepting accruals base for calculating accounting earnings, we can claim that accounting earnings is formed from two cash and accruals components Financial Accounting Standards Board¹ (1978).

Financial Accounting Standards Board believes that showing information about earnings and its component in comparison with operating cash flows is a better indicator in predicting future cash flows based on FASB. If this operating cash believe be true and the stock owners' right values reflect future expected profits, as accruals are one of the most basic components of earnings and financial reporting, this items are related to the stock owners right valuing. Moreover, the accruals earnings and operating cash

¹ FASB
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flows provide some related information in prediction of enterprise value and also one of the connection tools of companies' managers with the market is presentation of information about prediction of the company's earnings that as a result of that companies can affect the market behavior. In present condition many individual shareholders have active presentation in Tehran Stock Exchange and to a high degree make their decisions based on the published information. Though, companies managers are expected to inform the market exactly from their predictions, however, companies' real financial performance bills has significant differences with the predicted financial information that this subject as earnings prediction accuracy can be studied by managers (Mahdavi and Saberi 2010).

So, dividing the earnings to accruals and cash component and studding the effect of any of this components on enterprise value seems necessary. Furthermore, another subject in this filed is whether accounting earnings components can be effective in future earnings predictions. Thus, in this research we are going to answer this questions that, what effect exists between the accounting earnings components with future earnings prediction and enterprise value? Are cashes and accruals and effective on future earnings predictions? In making clear and measurement of enterprise value is earnings components effective?

Theory and backgrounds

Financial Accounting Standards Board in the statement number 6 of financial accounting concepts emphasis this subject that all financial bills components and recognition criterions and measurement of inserted items in the stated report are prepared using accrual accounting methods and are considered in these bills.

According to FASB accrual accounting tries to record the effect of all transactions and other incidents and instances that have subjects and results for the institution in the period which these transactions, incidents and instances have occurred instead of recording these effects on periods which cash is received or paid by the institution (Bassam, 2002).

The considerable point in FASB opinions is that "they know the interest of users to future cash flows of the institution and institution ability in producing the desired cash flows before anything is the cause of interest and attention to information about "the profit" of institution (as the result of accrual accounting) and not attention to information which are directly about the cash flow"; that is they believe: accrual system provides information needs of prediction models of future cash flows for the users by introducing operating information and institution profits.

FASB in this statement has propounded this point clearly that the information related to earnings and

earnings components of an institution that is measured by accrual accounting methods, is generally a better indicator of institution's performance with respect to the information related to present cash receiving and paying (Bassam, 2002).

Accepting the accrual bases for calculating the accounting earnings, we can claim that accounting earnings is composed of two cash and accrual components. Financial Accounting Standards Board believes that showing information about earnings and its component in comparison with operating cash flows is a better indicator in predicting future cash flows based on FASB. If this believe of profits increasing information content with respect to operating cash flows be true and the value of stock owners' rights reflects future expected profits, as accruals are one of the most basic components of earnings and financial reporting, this items are related to the stock owners right valuing. Moreover, the accruals earnings and operating cash flows components provide some related information in predicting enterprise value (Barth et al 2005)².

In recent years, the method of reporting and disclosing accounting information effective on inter-organizational and outer-organizational decisions is considered by accounting researchers. Many of present researches has also studied the ability of prediction of accounting items. Financial bill users have more and deeper attention to the power of prediction of the items inserted in this bills. Financial analyzers believe that the value and importance of financial bill items is dependent of how much this items are predictable in decision making. Usually, prediction of accounting earnings of the future period is among topics that is seriously consider by financial bill analyzers and for this reason many researches have been done in regard with future earnings prediction via different variables by researchers for remove the user needs of financial bills (Xu, 2010).

In Iran companies are obligated to predict the earnings of each of their shares any three months and annually and report to after maximum of 20 days after the conclusion of the three month period to the control directorship on companies of the Tehran Stock Exchange. However, the first prediction of the profits of any share is related to the beginning of the year and before the mentioned year, companies content to the production and selling reports (Jahankhanian and Safarian, 2004).

Now, for better understanding the subject we bring some related interior and exterior research concerning the topic:

History of exterior researches:

² Barth, M., W. Beaver. *J. Hand. And w. Landsman*, 2005

Ahsan Habib (2011) in a research studied earnings and its components and also cash flows and their relation with the enterprise value. His research society are 783 companies listed in the Australia Stock Exchange. He divided the sample companies from the size view to two groups. In the first group were the big companies and small and medium companies were in the second group. He found that the performance evaluation criterions in the first group are much more important than the second group. The data of this research were chosen for the period 1992 to 2005. Other results indicate a decrease in the power of description enterprise value by the total income variable in the years of study.

Francis et al³ (2013) studied the relation between accruals and operation cash flow predictions. Their purpose was to describe the relation between accruals and cash components of the earnings that they used two comparative models to aim. The first model was cash flow stochastic step model and the second model was inverse accrual model in which the present cash flow accompanied by changes of received accounts, paid accounts and good existence. For this reason 653 companies were studied for the period of 2003 to 2010. The achieved results indicated that cash flow prediction with accruals is more accurate than simple prediction based on cash stochastic step model.

Wang (2014) has studied the subject of valuing earnings components and its effect on earnings prediction and enterprise value. The time period of this research has been from 2003 to 2012 and the population has been the listed companies in London Stock including 784 companies that the study is done in three steps including 1) study of earnings according to stock profits and earnings components, 2) investigation the earnings future prediction, 3) study of the effect of earnings on enterprise value. The results show that there is a meaningful relation between the earnings components and predicted earnings and simultaneous use of accruals and cash flows in the prediction and valuation equations produces the possibility of studying related to these components in earnings prediction and determining enterprise value in another form.

History of interior researches:

Haghighat and Motamed (2011) have studied the relation between earnings fluctuation and the capability of earnings prediction. To this aim they studied 125 companies (listed in the Tehran Stock Exchange) from 1995 to 1998. Their founding showed that there is a negative and meaningful relation between earnings fluctuation and the capability of earnings prediction in short and long horizons of time. They also used the research model in the case of seasonal profits that the results indicate a positive relation between fluctuation of seasonal earnings and its prediction capability. This relation even was introduced stronger that the inverse relation between fluctuation and capability of annually

prediction. That means in seasonal predictions, earnings fluctuation helps in predictions.

Barzideh and Shahriari (2014) have studied the comprehensive prediction power and information content of earnings and loss variables and balance-sheet in future cash flow predictions. In this study the panel data and multi-variable regression equation and the data of 153 companies listed in the Tehran Stock Exchange for a period from 2003 to 2010 are used to test the hypothesis. The results show that the phenomenon of accruals return in our research period and sample has also existed. Also the power of prediction operating earnings is more than other existing variables and also after running the multi variable regression of observations it was observed that among the above variables, only the operating earnings has increasing information content.

Eskandarli et al (2014) studied the effects of prediction of earnings by managers. The main purpose of this research was investigating the information content of initial predicted benefits and its adjustment by managers in the listed companies in the Tehran Stock Exchange. Based on the event research methodology, the market response in the form of changes of stock price is evaluated after noticing the initial earnings prediction and its adjustment by managers. The results of studying based on 132 samples in a period of from 2007 to 2011 show that stock market responds in the earnings prediction by managers. This response is more to the initial earnings prediction than adjustment of earnings prediction and the amount of stock transfers after announcing the earnings prediction has increased.

Research Hypothesis

In the present research the main and subsidiary hypothesis will be designed and tested according to the followings.

Main Hypothesis

- 1- Accounting earnings component have meaningful effect on future earnings prediction of the companies listed in the Tehran Stock Exchange.
- 2- Accounting earnings component have meaningful effect on enterprise values of the companies listed in the Tehran Stock Exchange.

Subsidiary Hypothesis

1-1 cash items (cash flows) have meaningful effect on future earnings prediction listed in Tehran Stock Exchange

1-2 Accruals have meaningful effect on future earnings prediction listed in Tehran Stock Exchange

³ Francis, R. and Eason, P (2013)

2-1 cash items (cash flows) have meaningful effect on enterprise values listed in Tehran Stock Exchange

2-2 Accruals have meaningful effect on enterprise values listed in Tehran Stock Exchange

Methodology

This purpose of this research is practical and it is descriptive and after-event from the nature and methodology and its reasoning type is deductive and inductive. In this kind of researches, the aim is to study the existing effect between variables and data from a space that have been existed in a natural way and are collected and analyzed from the previous events that have occurred without direct interface of the researcher. To perform this research panel data are used.

Population

The population of the present research are all the companies listed in the Tehran Stock Exchange. It should be noted that the time period of this research was from 2009 to 2014 that finally the under study companies (forming the sample) are selected based on the following conditions:

- 1- The accepted companies should be in the Stock Exchange from the beginning to the end of the research
- 2- The accepted companies should not be among financial intermediary banks, holding and leasing companies.
- 3- The companies which the information related to the variables did not exist are removed from the population.
- 4- The stock of the companies be exchanged in the Stock Exchange in the years 2009 to 2014
- 5- The financial year of the companies lead to March 19 (the last day of the Persian year)

Finally, according to the above conditions, 150 companies were selected.

Method and Tools of collection and analyzing Data

In this research the library method was used for collecting the theory bases and literature of the research and for collecting the required data for analyzing and testing the hypothesis the documentary method is used. The required data are collected from the Tadbir Pardaz and Rah Avard Novin information bank, research management internet site, Islamic development and studies of the stock exchange organization, Tehran Stock Exchange internet site. To analyze the statistic data and test of the research hypothesis the descriptive statistics (including mean, standard division) and inference statistics (multivariable linear regression) is used. It should be noted that the variables of this research are calculated with the Excel software version 2010 and then the analysis and testing of the research

hypothesis as well as its results are used according to the Eviews software version 9.

Research Variables

- Independent Variables

In this research the accounting earnings components are considered as independent variables.

In this research the object of accounting earnings component are two important earnings component i.e. cash and accruals. The related formula are based on the Gong J., Li S (2010), Ahsan Habib (2011), Kumar et al⁴ (2008), Barth et al⁵ (2005) and Faghani (2015) as follows:

$$EARNINGS_{i,t} = \alpha_1 + \sum_{j=1}^{n+1} \alpha_j CC_{i,j,t-1} + \sum_{k=n+2}^{n+p+1} \alpha_k ACC_{i,k,t-1} + \sum_{l=n+p+2}^{2n+p-1} \alpha_l AVG\Delta ISC_{i,l,t-1} + \epsilon_{i,t+h}$$

EARNINGS_{i,t}: Earnings before deducting the unexpected items

CC_{i,t-1}: Cash component of earnings (cash items) for company i for the period of *t - 1*

ACC_{i,t-1}: Accruals component of earnings (cash items) for company i for the period of *t - 1*

AVGΔISC_i: Changes in the earnings and loss components for the period of three years ago

Cash items:

Cash items is increase or decrease in the company cash that in this research for calculating the earnings cash items we use operating cash flows that is in simple word the money produced as a result of company operation that is usually obtained by deducting all the operational costs from earnings, but a set of adjustments are done on the earning. It should be noted that in similar researches such as Bassam (2002), Faghani and Makerani (2015), Baghomian et al (2013) the following formula is used:

Operating cash flow (cash items)
 = *input cash flow of the period due to operation*
 – *output cash flow of the period due to operation*

Operating cash flow (cash items) used in this research are selected and used from cash flow of the survived companies (from the March 20th 2009 to March 19th 2015 companies listed in Tehran Stock Exchange).

Accruals: Accruals describe the difference between accounting earnings and cash flow obtained from the operation and are equal to operating earnings minus cash flow obtained from the operation. It should be

⁴ Kumar, K., and G. Krishnan (2008)

⁵ Barth, M., w. Beaver., J. Hand., and w. Landsman (2005)

noted that when we say accruals we mean the sum of accruals.

In this research we use Sloan model (1996). This model which is used in the researches of Bassam (2002) and Baghomian et al (2013), is as follows:

$$\text{Accruals} = (\Delta\text{CUAS}-\Delta\text{CASH})-(\Delta\text{CULI}-\Delta\text{LOAN}-\Delta\text{TAXA}-\Delta\text{DIV})-\text{DEPR}$$

Where,

- ΔCUAS = Changes in the present assets
- ΔCASH = Changes value in the cash and cash equivalent
- ΔCULI = Changes value in the present debts
- ΔLOAN = Changes value in paid loans that includes their present account
- ΔTAXA = Changes value in paid taxes
- ΔDIV = Changes value in the paid stock earnings
- DEPR = the cost of depreciation of obvious and non-obvious assets

It should be noted that to homogenize the above variables the items are divided to the total asset.

- Dependent Variable

In this research according to the subject of study we have two dependent variables i.e. future earnings prediction and enterprise value.

Future earnings prediction

Earnings per share (EPS) is one of the most important statistics that is considered by investors and analyzers. EPS is calculated by dividing the earnings after tax deduction to the total number of stocks. For future earnings prediction also we sue the predicted EPS, because it is considered as the most suitable and probable method for future earnings prediction of a company and also this model is used in similar researches such as Draghma, Zahran (2011), Xu (2010), Haghghat and Motamed (2011) and Khodadadi and janjani (2010) that its formula is as follows:

$$Eps_{t+1} = \frac{\text{Earnings} - \text{tax}}{\text{total number of stocks}}$$

Enterprise Value

The other dependent variable in this research’s topic is enterprise value. To measure and evaluate enterprise value according to the previous and similar researches such as Ruiz et al⁶ (2011), Parlak (2010), Hoseinzadeh et al (2011) and ... we use the Q TOBIN model. This Q TOBIN model is known as simplified Q TOBIN model that is more used as enterprise value criterion. This model is as follows:

$$Q.Tobin_{it} = \frac{MVE_{it} + BVE_{it}}{TA_{it}}$$

MVE_{it} : The value of the stock of ith company in the financial period t

BVE_{it} : The book value of debts with profit of the ith company in the financial period t

TA_{it} : total sum of the assets of ith company in the financial period t

Control Variables

Financial lever (Lev)

Measuring the financial lever of the company is done by dividing the total sum of debts to the total assets

$$Lev = \frac{T L}{T A}$$

Firm Size

One of the structural and internal factors of companies that affects the efficiency and profitability and their future earnings is the firm size. In this research the natural logarithm is used to calculate the firm size.

$$size = \log A$$

Analyzing the Research Data

Descriptive statistics

In table1-1 the descriptive statistics related to the research variables is shown. The research data are related to a 6 year period from 2009 to 2014 for 150 companies that are annually taken.

variable	variable	mean	Standard deviation	Min	Max	Skewness	Kurtosis
ACC	accruals	0.003448	0.255732	-1.95215	2.38246	0.083142	23.51813
CC	Cash items	0.123295	0.123295	-0.33606	0.651653	0.655174	4.194885
EPS	Earnings per shares	706.8011	1314.73	-4187	13379	2.455952	19.55433
TOBIN	enterprise value	1.715768	0.952289	0.567561	7.663583	2.366167	10.34436
SIZE	Firm size	13.75576	1.543501	10.03122	19.00938	0.815956	3.951577
LEV	Financial lever	0.654561	0.313808	0.06576	3.060401	2.412988	15.12749

Test of the Research Hypothesis

⁶ Ruiz-Mallorqui & Santana-Martin

Variable Stability

Variable	Levin, Lin and Chu Test		Fillips-Peron Test	
	statistics	Level of Meaningfulness	statistics	Level of Meaningfulness
Accruals (ACC)	-37.3886	0	849.846	0
Cash Components (CC)	-21.9389	0	572.392	0
Earnings per share	-75.6382	0	491.259	0
Q Tobin (Enterprise Value)	-17.5218	0	411.242	0
Accounting Earnings	-37.3294	0	822.42	0
Firm Size	0.6907	0.7551	220.248	0.9998
First order difference size	-28.1685	0	523.133	0
Lev (financial Lever)	-11.884	0	426.599	0

$$Eps_{t+1} = \alpha + \beta_1 Earnings + \beta_2 lev + \beta_3 size + e_{it} \quad (1)$$

$$Q_{tobin_t} = \alpha + \beta_1 Earnings + \beta_2 lev + \beta_3 size + e_{it} \quad (2)$$

Limer F and Hausman test for the main hypothesis 1 and 2

Test	Model	Statistics F	Level of Meaningfulness	Test Result
Limer F test	Model 1	8.3779	0.000	Null assumption rejection
	Model 2	5.2065	0.000	Null assumption rejection
Hausman Test	Model 1	172.294	0.000	Null assumption rejection
	Model 2	55.3432	0.000	Null assumption rejection

Variance similarity test

From another assumption of the linear regression is the similarity of the variance of the error terms in different periods. Violation of this assumption creates a problem named variance un-similarity.

Colinerity

In regression analysis of several variables, in addition to the studied assumptions, the colinerity of independent variables be also tested in the research models. Colinerity is a state that shows an independent variable is a function of other independent variables.

Tests		Statistics	Statistic 1	Statistic 2	Statistic 3	Statistic 4	Statistic 5	Statistic 6
Variance similarity	Prosh, Pagan, Gadeh, Rey	The value of statistics F	11.1195	8.4148	10.0759	8.171	7.2074	5.7433
		Level of meaningfulness	0.000	0.000	0.000	0.000	0.0001	0.0007
	Arch	The value of statistics F	31.8297	33.6907	19.418	24.3202	34.6534	37.5811
		Level of meaningfulness	0.000	0.000	0.000	0.000	0.000	0.000
Colinerity Test	variables	VIF	VIF		VIF			
	Earnings	1.285294						
	acc					1.203226		
	cc			1.054961				
	size	1.005612		1.003819		1.005396		
lev	1.284242		1.058196		1.202972			

Main hypothesis 1: Accounting earnings component have meaningful effect on future earnings prediction of the companies listed in the Tehran Stock Exchange.

To study the above hypothesis in the table 4-5 the value of the accounting earnings (Earnings) variable coefficient in the model 1 is 134.6824. According to the level of meaningfulness of the coefficient of this variable that is less than 0.05, it is concluded that the accounting earnings components have direct and meaningful effect on future earnings prediction (according to the positive sign of the coefficient). In other words by increasing (decreasing) the accounting earnings components the value of future earnings prediction also will increase (decrease); so it is resulted that the main hypothesis 1 is confirmed with 95% confidence.

Main hypothesis 2: Accounting earnings component have meaningful effect on enterprise values of the companies listed in the Tehran Stock Exchange.

To study the above hypothesis in the table 4-5 the value of the accounting earnings (Earnings) variable coefficient in the model 2 is 0.15395. According to the level of meaningfulness of the coefficient of this variable that is less than 0.05, it is concluded that the accounting earnings components have direct and meaningful effect on enterprise value (according to the positive sign of the coefficient). In other words by increasing (decreasing) the accounting earnings components the value of enterprise value also will increase (decrease); so it is resulted that the main hypothesis 2 is confirmed with 95% confidence.

Investigation of the Research Hypothesis

To test the main hypothesis 1 and 2 the following regression models are used:

Method	Regression panel with constant effects		Regression panel with constant effects	
Dependent Variable	EPS		Q Tobin	
Independent Variables	Level of meaningfulness	Coefficient	Level of meaningfulness	Coefficient
Earnings	0	134.682	0	0.15395
LEV	0.0045	60.4582	0.3328	-0.0553
SIZE	0	282.392	0	1.04226
c	0.263	-326.76	0.0243	1.77491
Statistics F	25.0537		9.8537	
Level of meaningfulness	0		0	
Durbin Watson statistics	1.68		1.94	
Determining coefficient	0.83		0.66	

To test the subsidiary hypothesis 1-1 and 1-2 the following regression models are used:

$$Eps_{t+1} = \alpha + \beta_{CC} + \beta_{lev} + \beta_{size} + e_{it} \quad (3)$$

$$Eps_{t+1} = \alpha + \beta_{ACC} + \beta_{lev} + \beta_{size} + e_{it} \quad (4)$$

Limer F and Hausman test for the subsidiary hypothesis 1-1 and 1-2

Test	Model	Statistics F	Level of Meaningfulness	Test Result
Limer F test	Model 3	7.7909	0.000	Null assumption rejection
	Model 4	65.5641	0.000	Null assumption rejection
Hausman Test	Model 3	9.1739	0.000	Null assumption rejection
	Model 4	70.5481	0.000	Null assumption rejection

Subsidiary Hypothesis 1-1: Cash items (cash flows) have meaningful effect on future earnings prediction listed in Tehran Stock Exchange)

To study the above hypothesis in the table 4-7 the value of cash component (cash flow) (CC) variable coefficient in the model 3 is 519.1505. According to the level of meaningfulness of the coefficient of this variable that is less than 0.05, it is concluded that the cash components (cash flow) have direct and meaningful effect on future earnings prediction (according to the positive sign of the coefficient). In other words by increasing (decreasing) the value of cash component (cash flow), the value of future earnings prediction will also increase (decrease); so it is resulted that the above hypothesis is confirmed with 95% confidence.

Subsidiary Hypothesis 1-2: Accruals have meaningful effect on future earnings prediction listed in Tehran Stock Exchange)

To study the above hypothesis in the table 4-7 the value of accruals variable coefficient in the model 4 is 87.89963. According to the level of meaningfulness of the coefficient of this variable that is less than 0.05, it is concluded that accruals have direct and meaningful effect on future earnings prediction (according to the positive sign of the coefficient). In other words by increasing (decreasing) the value of accruals, the value of future earnings prediction will also increase (decrease); so it is resulted that the above hypothesis is confirmed with 95% confidence.

According to the obtained level of meaningfulness for the control variables we can say that in both the models 3 and 4, the financial lever and the firm size have direct and meaningful effects on future earnings prediction (the obtained meaningfulness level for these variables is less than the error level of 0.05).

Method	Regression panel with constant effects		Regression panel with constant effects	
Dependent Variable	EPS		Q Tobin	
Independent Variables	Level of meaningfulness	Coefficient	Level of meaningfulness	Coefficient
CC	0.000	519.1505		
ACC			0.0044	87.89963
LEV	0.0114	56.50097	0.0005	63.70152
SIZE	0.000	166.007	0.0000	274.6577
c	0.448	-243.083	0.1627	-349.545
Statistics F	51.1480		28.6986	
Level of meaningfulness	0.000		0.000	
Durbin Watson statistics	1.70		1.67	
Determining coefficient	0.91		0.85	

To Test the subsidiary hypothesis 1-2 and 2-2 is the following regression models are used:

$$Qtobin_t = \alpha + \beta_{CC} + \beta_{lev} + \beta_{size} + e_{it} \quad (5)$$

$$Qtobin_t = \alpha + \beta_{ACC} + \beta_{lev} + \beta_{size} + e_{it} \quad (6)$$

Limer F and Hausman test for the subsidiary hypothesis 2-1 and 2-2

Test	Model	Statistics F	Level of Meaningfulness	Test Result
Limer F test	Model 5	4.3945	0.000	Null assumption rejection
	Model 6	52.6627	0.000	Null assumption rejection
Hausman Test	Model 5	5.3875	0.000	Null assumption rejection
	Model 6	44.7152	0.000	Null assumption rejection

Subsidiary Hypothesis 2-1: Cash components (cash flow) have meaningful effect on enterprise values listed in Tehran Stock Exchange)

To study the above hypothesis in the table 4-9 the value of cash component (cash flow) variable coefficient in the model 5 is 0.2969. According to the level of meaningfulness of the coefficient of this variable that is less than 0.05, it is concluded that cash components (cash flow) have direct and meaningful effect on enterprise value (according to the positive sign of the coefficient). In other words by increasing (decreasing) the value of cash components (cash flow), the value of enterprise value will also increase (decrease); so it is resulted that the above hypothesis is confirmed with 95% confidence.

Subsidiary Hypothesis 2-2: Accruals have meaningful effect on enterprise values listed in Tehran Stock Exchange)

To study the above hypothesis in the table 4-7 the value of accruals (ACC) variable coefficient in the model 4 is 0.1136. According to the level of meaningfulness of the coefficient of this variable that is less than 0.05, it is concluded that accruals have direct and meaningful effect on enterprise value (according to the positive sign of the coefficient). In other words by increasing (decreasing) the value of accruals the value of enterprise value will also increase (decrease); so it is

resulted that the above hypothesis is confirmed with 95% confidence.

Method	Regression panel with constant effects		Regression panel with constant effects	
	EPS		Q Tobin	
Dependent Variable				
Independent Variables	Level of meaningfulness	Coefficient	Level of meaningfulness	Coefficient
CC	0.000	0.296932		
ACC			0.0000	0.113601
LEV	0.5196	-0.03182	0.356	-0.0471
SIZE	0.0000	0.945902	0.0000	0.993231
c	0.028	1.497767	0.0151	1.713078
Statistics F	16.5433		11.0628	
Level of meaningfulness	0.000		0.000	
Durbin Watson statistics	1.91		1.71	
Determining coefficient	0.77		0.69	

Conclusion:

First main hypothesis

The first main hypothesis explains that the accounting earnings components have meaningful effect on future earnings prediction of the companies listed in Tehran Stock Exchange. The main purpose of financial bills is providing useful financial data for users. These data are to some extent based on the economic facts. Thus, the provided information can help to improve the investors, analyzers and even managers' decisions. The result of this study is similar to the previous findings such as wand (2014) and Bassam (2002).

Second main hypothesis

The second main hypothesis of this research explains that the accounting earnings components have meaningful effect on enterprise values of the companies listed in Tehran Stock Exchange. The results of this research is in line with the results of Wang (2014), Aba Ibrahim et al⁷ (2009) and Kumar and Krishnan⁸ (2008).

Subsidiary hypothesis 1-1

This hypothesis explains that cash items (cash flows) have meaningful effect on future earnings prediction listed in Tehran Stock Exchange. In the year after prediction of cash flows, investors have invested in companies which their provided to be true cash flow has been more than the expected cash flow and this means that the investors has responded the right

⁷ Aba Ibrahim, Muliati Binti, Hajah Fatimah Binti Bujang, Nero Madi

⁸ Kumar, K., and G.

response to the cash flow predictions. This result is similar to the similar researches such as Arthur et al (2010).

Subsidiary hypothesis 1-2

This hypothesis explains that accruals have meaningful effect on future earnings prediction listed in Tehran Stock Exchange. Investors generally did not show a suitable response to the accruals predictions not in the prediction year and not in the years after that. This can have different and contradictory reasons. For example it is possible that investors be completely familiar with accruals and with the information of the possibility of their manipulating by managers consider them without any information contents. This result is the same of the researches by Wang (2014), Xu (2010) and Gong et al⁹ (2009).

Subsidiary hypothesis 2-1

This hypothesis explains that cash components (cash flow) have meaningful effect on enterprise values listed in Tehran Stock Exchange. The result of this research is similar to the results of other researches such as Habib¹⁰ (2011), Aba Ibrahim et al¹¹ (2009) and Kumar and Krishnan¹² (2008).

Subsidiary hypothesis 2-2

This hypothesis explains that accruals have meaningful effect on enterprise values listed in Tehran Stock Exchange. The obtained result can be seen in similar researches such as Habib (2011), Aba Ibrahim et al (2009) and Kumar and Krishnan (2008).

Recommendation regarding the research's results

According to the results and findings of this research the following recommendation for the users of this research can be titled as follows: 1) to better study the financial bills an especial attention should be done to the earnings and losses of the companies always especially to the existing accounting earnings digits in it and in fact this digit is the measure criterion of many expected patterns of all the users of financial bills, 2) in this research showed accounting earnings components that is composed of accruals and cash components are effective in prediction. So, certainly attention to these two components is very important and necessary and analyzing these two items is important.

Recommendation for future works

According to the present study the following recommendations is proposed for future researches:

- 1- Performing experimental and analytical researches about accounting earnings and its components
- 2- Using other control variables such as assets efficiency, the ratio of mixed earnings to the total assets etc.

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