Cash flow Relation and Accounting Figures with Stock return with Emphasis on the Role of Information Asymmetry

Mohammad Hamed Khan Mohammadi, Shohre Yazdani, Mohammad Hossein Abri Oghani

Abstract

In Iran, with regard to emergence of economic development and privatization, it seems that investment will keep increasing in future periods. On the other hand, the investors concerning information asymmetry need the standards through which they evaluate the performance and make proper economic decisions, whereby this study is of great importance. The present study examines the relationship between stock returns and "cash flow and accounting earnings" concerning information asymmetry in companies listed on the Stock Exchange during 2002-2011. An inductive research method using correlation method by means of regression model to evaluate the relationship between variables has been used in this study. The results of this study indicate that there is a positive relationship between stock returns and "cash flow and accounting earnings". Yet accounting earnings concerning both normal state and state of information asymmetry has worked out better than cash flow in describing stock returns.

Introduction

Use of proper information is one of the effective factors in decision making. Proper decision makings for investment require proper information. Usefulness of accounting information to investors must be empirically examined through the relation or lack of relation between issued accounting figures and the change in stock price and/or other important components which are required in the community [27]. Hence, various studies on relevant information especially accounting information have been conducted, of which it can refer to studies by Hendriksen & Van Brada [12], Christensen & Demeski [4], Scott [21]. Michael Spence et al. [15] represented a theory in economy entitled "information asymmetry". According to this theory, some people have more information than other people in a market. As a result, people can use their own specific information for earning abnormal returns. Over the past thirty years, numerous cases of conflict of interests have been witnessed among different groups. This conflict of interests is a reason for information asymmetry [14]. The main barrier to information asymmetry among managers and stockholders and managers’ different motives is for increasing their earning [23]. When the information asymmetry associated to stock of a company increases, intrinsic value of information asymmetry will be different from the value that the investors consider for the considered stock in capital market. As a result, the real value of corporate stock will differ from the value expected by stockholders [7], if the required Information is distributed asymmetrically among individuals, there will be different results. To sum up, however information can be important for decision maker, the quality of information distribution must be evaluated accurately [7]. Accounting and financial reporting as an instrument for solving agency problems can transfer intra-organization information to out of organization [21]. Previous studies indicate that accrued interest plays a major role in process of valuation, because it reduces the problems in scheduling and lack of relevance in cash flow and accounting figures [6]. Anyhow, there is doubt on usefulness and reliability of accruals, because managers enable to manipulate it as they wish. If the manager manipulating the interest opportunistically, this discretion of manager can deviate the reported interest [26]. On one hand, it is argued that cash flow is an important sign of real performance of company, on the other hand it is argued that accounting figures with components of accruals rather than cash flow figures provide better further information [6].

The major problem examined in this study lies on a fact that whether further information existing in components of accruals become more relevant than flow figures or not, concerning asymmetric distribution of
information between individuals; Further, whether accounting figures will be a more suitable standard or not. This study aims to examine the relationship between stock returns and "cash flow and accounting earnings" concerning information asymmetry in companies listed on the Stock Exchange. This study has intended to provide a criterion for explaining stock returns for investors, in case of existing relationship between stock returns and "cash flow and accounting earnings".

**Theoretical background:**

Use of proper information is one of the effective factors in decision making. Financial reporting is one of information sources available to capital markets, playing a major role in development of investment and increase of efficiency in market. Investors and creditors use cash flows and interest to evaluate abilities of the business unit in earning interest and fulfilling their obligations. Accounting figures will be associated to stock value, if they have the ability to describe the changes in stock return. In this regard, this will be beneficial for investors in evaluating stock, and it will be related to decision making. Accounting interest is identified based on accrual accounting. Use of accrual accounting generally differentiates the operational interest reported with net cash flow acquired from operations and reporting a series of accruals in financial statements [19]. A part of accounting interest is in cash, i.e. cash flow acquired for corporate operations (cash flow) are included in this interest, and part of it develops from accruals (difference between interest and cash flows). According to financial literature for accruals, accounting interest can be divided into two segments including discretionary and non-discretionary accruals [18]. Accruals are an important index to recognize quality of interest, being used evaluation of stock. Indeed, it can define quality of accruals as the degree of closeness of corporate interest to the extent of cash flows, thus low quality of accruals reduces this degree of closeness, causing the risk in decision making on corporate increased. If the required information is distributed asymmetrically among individuals, there will be different results. To sum up, however information can be important for decision maker, the quality of information distribution must be evaluated accurately [7]. Information asymmetry is the major barrier between managers and stockholders.

Gunther (2009) stated that as information asymmetries increase incentives for opportunistic earnings management will increase, since punishment of opportunistic behavior by outside shareholders is less likely, however discretionary approaches exercised in interest accruals will be more important to manager, information value lied on accruals removes in point of view of foreign stockholders. According to another point of view, cash flows compared to interest will be a better criterion for corporate performance, because managers can manipulate current accruals through identification of earning or delay of identification of cost. A naive person might argue that cash flow figures representing the periodical surplus of cash generated by a firm should be a good predictor of its stock market performance. This view, which is in parts supported by proponents of the discounted cash flow method of firm valuation, hypothesizes a positive correlation between a firm’s cash flow performance and its stock market performance [17]. On the other hand, it is argued that cash flow is an important sign from actual performance of firm on the other hand it is argued that that accounting figures with components of accruals rather than cash flow figures provide better further information [6]. This issue has been recognized as an informative of accounting figures, where the main idea stands on a fact that interest (accounting) is divided equally during the project lifetime. In this sense, accountants might argue that accounting figures rather than cash flow will be better to interpret performance of firm’s market value [6]. There might a good reason for this argument concerning better impact of accounting figures rather than cash flow figures, but there practically exist numerous barriers to this argument which requires an empirical test. The main barrier to information asymmetry among managers and stockholders and managers’ different motives is for increasing their earning [23]. According to view of in formativeness of accounting figures, this argument seems logical that the more information asymmetry increases, further information existing in components of accrual will be relevant. However, by increasing information asymmetry, managers’ incentives for profit-seeking earnings will increase, but this is less likely due to punishments for profit-seeking behaviors by stockholders out of firm. Hence, discretionary items embedded in accrual components of accounting figures will be more worthwhile for the managers, and the value of accrual information will be devalued in viewpoint of stockholders.

**Literature review:**

Shahmoradi [22] in a study examined the relationship between accounting interest and stock return, that the results indicate that a significant relationship exists between operating income and stock return, but a significant relationship does not exist between net income and stock return.

Dastgir & Khodabande [5] in a study examined the relationship between information content of main components of cash flow statements and stock return, and concluded that a poor relationship exists between main components of cash flow statements and stock return.

Ghaemi & Vatan parast [9] examined the role of accounting information in reducing information asymmetry. In this study, information asymmetry and its effect on stock price and turnover in 21 days before...
and after dividends declared per share have been examined. The results of this study indicate that information asymmetry has existed among investors in Tehran stock exchange, and this has been relatively greater in the periods before declaration of dividends than periods after declaration of dividends. Further, it was specified that information asymmetry has been associated to stock price and turnover, so that dividends and turnover have increased in the period before declaration of dividends, and a fluctuation has been seen in stock price.

In 1968, Ball and Brown for the first time used accounting earnings and cash flow for prediction of stock return, and concluded that accounting interest enjoys information content; further, they concluded that as accounting earnings is calculated using accruals, thus quality of cash flow will be better than cash flow.

Dechew [6] examined relevance of accounting to corporate value, and concluded that the more changes of a variable be unpredictable, the effect of this variable will be more on corporate value.

Freeman [8] and Harris & Stor (1991) conducted some studies and concluded that accounting earnings compared to cash flow enjoys greater information content, yet it has been announced that information content differs in various countries around the world.

Chan et al [3] examined the relationship between accruals and stock return, and displayed that stock return reduces in the companies with high accruals in the period after reporting financial information.

Rapp [17] examined effect of information asymmetry on relevance of cash flows and accounting figures in defining stock return in German stock exchange, and the results of studies indicate that the more information asymmetry increases, the ability of accounting figures in defining stock return of companies rather than cash flow increases.

Research method:

The present study is of accounting research studies, included of inductive research method. Further, this study is regarded as a post-event study because real information of stock market and financial statements of companies have been used in this study. The present study in terms of target is an applied research. Financial statements and decisions of general, ordinary and extraordinary meetings of the selected companies have been used for data collection.

The data have been collected by means of the methods as follows:
- reference to Tehran stock exchange and use of existing information in libraries, archives and monitoring and evaluation directorate of Tehran stock exchange
- use of statistics archive existing in website of the Tehran Stock Exchange and other associated websites
- use of financial reports issued by Tehran stock exchange

Further, to analyze and test research hypotheses, software Eviews has been used. The targeted sample has been used. To select samples, the limitations as follows were considered:
- the sample must be accepted in Tehran stock exchange from the early 2002.
- the financial statements of samples during 2002-2011 must be available
- there must not be a trading halt during 2002-2011.
- due to increasing the capability for comparison, financial period of the samples must end in the last month of the year.
- the samples must not be of investment, brokerage, holding, banking and insurance firms

Finally, 69 qualified companies among 340 companies (statistical population) were considered as sample group. To test research hypotheses, a practical analysis has been fulfilled, in which the relationship between performance of stock market's value and cash flow and accounting earnings and control variables has been examined, for which the model has been represented as follow:

\[ R_\text{it} = \alpha + \beta_1 \text{EAR}_\text{it} + \beta_2 \text{CF}_\text{it} + \gamma_1 \text{BETA}_\text{it} + \gamma_2 \text{SIZE}_\text{it} + \gamma_3 \text{MTB}_\text{it} + \gamma_4 \text{ETP}_\text{it} + \gamma_5 \text{LEV}_\text{it} + \gamma_6 \text{DOMINATED}_\text{it} + \epsilon_\text{it} \]

The model above is a generalized form of a prominent model relating to income figure, in which accounting earnings and cash flow instead of accounting earnings have been concurrently used for descriptive variables (Varfiled et al, 1995; Pronobis et al, 2008).

In this model, I control for firm-risk (BETA), firm size (SIZE), valuation levels (market-to-book ratio MTB and earnings-to-price ratio ETP) and leverage (LEV). Moreover, I also control for differences in ownership structures (DOMINATED), since ownership structures are often claimed to affect a firm’s stock market performance (e.g. Holderness, 2003). According to model above, there will be as follows:

Dependant variable:

\[ R_\text{it} \]

In this study, stock performance is dependant variable which is measured through stock return, for which the formula is as follow:

\[ \text{stock return} = \frac{(\text{bid price} - \text{dayprice}) + \text{dividend} + \text{priority} + \text{reward stock}}{\text{bid price}} \]
Independent variables:
- EAR$_{it}$: accounting earnings of firm $i$ in year $t$
- CF$_{it}$: cash flow of firm $i$ in year $t$
- BETA$_{it}$: Systematic risk $i$ in year $t$
- SIZE$_{it}$: Firm Size proxy $i$ in year $t$
- MTB$_{it}$: Market value to book value of equity $i$ in year $t$
- ETP$_{it}$: Earnings per share to market price $i$ in year $t$
- LEV$_{it}$: Leverage $i$ in year $t$

Dummy variables:
I define various dummy variables proxying information asymmetries and use each of these variables to split my sample into two subsamples.
Dominated: which takes the value 1 if the firm’s free float is lower than 50%, otherwise takes 0.
MCAP (Firm market capitalization): which takes the value 1 if the firm has an above median market capitalization in the particular year, otherwise takes 0.
R & D (Research and Development): which takes the value 1 if the firm has positive RnD expenditures in the particular year, otherwise takes 0.
INTANG: Intangible assets to total assets which takes the value 1 if the firm has an asset structure with an above median fraction of intangible assets in the particular year, otherwise takes 0.
To test the first hypothesis on comparison of information content of accounting earnings with operating cash flow, significance test of difference between coefficients of these two variables has been used in regression model.

In this study, the relationship between stock returns and "cash flow and accounting earnings" concerning information asymmetry in companies listed on the Stock Exchange during 2002-2011. The results from testing the first hypothesis have been characterized as follows:

**Table 1: Investigation of the first hypothesis.**

<table>
<thead>
<tr>
<th>Relation</th>
<th>Prob</th>
<th>t-test</th>
<th>Standard error</th>
<th>Coefficient</th>
<th>Variable</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive and significant</td>
<td>0.041</td>
<td>2.56</td>
<td>3.82</td>
<td>9.78</td>
<td>Fixed coefficient</td>
<td></td>
</tr>
<tr>
<td>Positive and significant</td>
<td>0.000</td>
<td>4.81</td>
<td>14.33</td>
<td>69.08</td>
<td>EARN</td>
<td></td>
</tr>
<tr>
<td>Positive and significant</td>
<td>0.000</td>
<td>4.72</td>
<td>0.045</td>
<td>0.214</td>
<td>Cash flow</td>
<td></td>
</tr>
<tr>
<td>Non-significant</td>
<td>0.265</td>
<td>-1.11</td>
<td>0.093</td>
<td>-0.104</td>
<td>BETA</td>
<td></td>
</tr>
<tr>
<td>Non-significant</td>
<td>0.538</td>
<td>0.615</td>
<td>0.924</td>
<td>-0.569</td>
<td>SIZE</td>
<td></td>
</tr>
<tr>
<td>Positive and significant</td>
<td>0.002</td>
<td>3.02</td>
<td>0.479</td>
<td>1.45</td>
<td>MTB</td>
<td></td>
</tr>
<tr>
<td>Non-significant</td>
<td>0.849</td>
<td>0.189</td>
<td>4.10</td>
<td>0.777</td>
<td>ETP</td>
<td></td>
</tr>
<tr>
<td>Non-significant</td>
<td>0.265</td>
<td>1.11</td>
<td>6.28</td>
<td>7.00</td>
<td>LEV</td>
<td></td>
</tr>
</tbody>
</table>

0.145\: Determination coefficient
0.136\: Adjusted coefficient

Durbin Watson: 1.94\: t-test prob 15.88 0.000

$R_{i}^{2}= 0.78 + 69.08 \cdot (EAR_{it}) + 0.214 \cdot (CF_{it}) + 1.45 \cdot (MTB_{it}) + \epsilon_{it}$

According to the results represented in Table above, t-statistics for coefficients of the variables accounting earnings, cash flow and ratio of market value to book value of equity at alpha level (5%) have been confirmed at 95% confidence level. Further, with regard to t-statistics and amount of probe, it has been shown in model above that the model is significant and null hypothesis is rejected. Further, adjusted amount of $R^{2}$ equals to 0.136. This implies that 13.6% of the changes relating to stock performance can be defined via independent variables and control variable of ratio of market value to book value of equity. The results indicate that a positive correlation between stock return and "operating profit and operating cash flow". To test second hypothesis, effect of information asymmetry on information content of operating cash flow and accounting earnings was considered,
and then the sample under study was divided into two groups based on each of variables, whereby a regression model for fitness group was obtained and then the results were compared with each other.

At the first stage, the companies were divided into two groups regarding free floating stock: the first group consist of the companies whose free floating stock is less than median free floating stock for the whole sample, and this group consists of high information asymmetry. The second group consists of the companies whose free floating stock percent is greater than median floating stock percent for the whole sample, and this group enjoys less information asymmetry. The results of this test have been summarized in table below.

Table 2: Investigation on the relation in the high asymmetry condition (companies which their free float stock is less than 50%)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>t-test</th>
<th>Prob</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>164.9</td>
<td>32.29</td>
<td>5.14</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>0.048</td>
<td>0.015</td>
<td>3.59</td>
<td>0.003</td>
<td>Positive and significant</td>
</tr>
</tbody>
</table>

Considering the obtained results in the first group there is a positive correlations between operating earnings and operating cash flow. Comparing operating earnings ratio (164.96) and operating cash flow. Ratio (0.048), we come to the conclusion that the correlation between accounting earnings and stock yield is more than the correlations between operating cash flow and stock yield. In the second group, results indicate correlation between operating earnings and stock yield but there is not a significant relation between operating cash flow and stock yield. Thus, in both groups stock profit is more appropriate for explaining the operation of stock earnings, and in another words whether information asymmetry is low or it is high, accounting earnings is better for explaining stock yield operation.

In the second phase, considering the intangible assets ratio to total assets, companies were divided into two groups. The first group includes companies which their intangible assets ratio to total assets is more than the median ration for the whole sample. This group has a high information asymmetry. The second group included companies which their intangible assets ratio to the whole assets is less than the median ratio for the whole sample. This group has a low information asymmetry. The results of this test summarized in the following chart.

Table 3: Investigation on the relation in low asymmetry condition (companies which their free float stock is more than 50%)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>t-test</th>
<th>Prob</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>64.77</td>
<td>14.77</td>
<td>4.38</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>-56.22</td>
<td>36.99</td>
<td>-1.51</td>
<td>0.13</td>
<td>Non-significant</td>
</tr>
</tbody>
</table>

Table 4: Investigation on the relation in the high asymmetry condition (companies Intangible assets to total assets Ratio more than median)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>t-test</th>
<th>Prob</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>86.52</td>
<td>6.46</td>
<td>13.39</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>46.11</td>
<td>5.65</td>
<td>8.15</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
</tbody>
</table>

Table 5: Investigation on the relation in the low asymmetry condition (companies Intangible assets to total assets Ratio less than median)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>t-test</th>
<th>Prob</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>128.52</td>
<td>23.59</td>
<td>5.44</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>0.333</td>
<td>0.082</td>
<td>4.05</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
</tbody>
</table>
Considering the obtained results, there is a positive correlation between operating earnings and operating cash flow. Comparing operating earnings ratio (86.52) and operating cash flow, we come to the conclusion that the correlations between accounting earnings and stock yield is more than the correlations of operating cash flow and stock yield. Also comparing the operating earnings ratio (128.52) with operating cash flow (0.333).

We come to the conclusion that in this group, the correlations between accounting earnings with stock yield is more than the correlations between operating cash flow with stock yield. Thus in both group accounting earnings is more appropriate for explaining stock yield and in other words, whether information asymmetry is high or low, stock profit is better for explaining stock yield operation.

In the third phase companies were divided into two groups considering the equity market of shareholders. The first category included companies which their equity market is more than the median equity market for the whole sample, and this group has a high information asymmetry. The second category includes companies which their equity market is less than the median equity for the whole sample. This group has a low information asymmetry. The results of this test summarized in the following chart.

Table 6: Investigation on the relation in the high asymmetry condition (companies that equity market value of stock holders more than median)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>T-test</th>
<th>Probe</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>109.2</td>
<td>18.89</td>
<td>5.78</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>-27.78</td>
<td>20.08</td>
<td>-1.38</td>
<td>0.167</td>
<td>Non-significant</td>
</tr>
</tbody>
</table>

0.191
0.168

Determination coefficient(R2)
Adjusted Coefficient( R2aj)

8.33  F-test
0.000  Prob
1.85

Table 7: Investigation on the relation in the low asymmetry condition (companies that equity market value of stock holders less than median)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>T-test</th>
<th>Probe</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>126.6</td>
<td>24.79</td>
<td>5.11</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>0.138</td>
<td>0.027</td>
<td>5.19</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
</tbody>
</table>

0.139
0.121

Determination coefficient(R2)
Adjusted Coefficient( R2aj)

7.45  F-test
0.000  Prob
1.93

Considering the obtained results, there is a positive correlation between operating earnings and stock yield, but there is not a significant relation between operating cash flow and stock yield. In the second category the results indicate a correlation between operating earnings and cash flow with stock yield. Also, comparing operating earnings ratio (126.6) and operating cash flow rate (0.138), we result that in this group, too the correlations between accounting earnings and stock yield is more than the correlations between operating cash flow and stock yield. Thus in both groups accounting earnings is more appropriate for explaining stock yield operation, whether information asymmetry is low or high.

In the fourth phase, companies were divided into two groups considering the cost of research. The first category includes companies which have had cost of research during the year, this group has a high information asymmetry. The second category includes companies which haven’t had cost of research during the year. This group have a low information asymmetry. The results of this test are summarized in the following chart.

Table 8: Investigation on the relation in the high asymmetry condition (Companies have not research and development expense)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>T-test</th>
<th>Probe</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>68.53</td>
<td>9.09</td>
<td>7.53</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>0.234</td>
<td>0.02</td>
<td>13.8</td>
<td>0.000</td>
<td>Positive and significant</td>
</tr>
</tbody>
</table>

0.118
0.107

Determination coefficient(R2)
Adjusted Coefficient( R2aj)

10.94  F-test
0.000  Prob
1.86
Table 9: Investigation on the relation in the low asymmetry condition (Companies have research and development expense).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>T-test</th>
<th>Prob</th>
<th>Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting earnings</td>
<td>41.00</td>
<td>10.47</td>
<td>3.91</td>
<td>0.00</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Cash flows</td>
<td>0.221</td>
<td>0.017</td>
<td>12.38</td>
<td>0.00</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>0.141</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Determination coefficient(R2)</td>
</tr>
<tr>
<td>0.131</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Adjusted Coefficient(R2a)</td>
</tr>
<tr>
<td>13.34</td>
<td>F-test</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.000</td>
<td>Prob</td>
<td></td>
<td></td>
<td></td>
<td>Durbin Watson</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.83</td>
</tr>
</tbody>
</table>

Considering the obtained results there is a positive correlation between operating cash flow and stock yield. comparing the operating earnings ratio (68.53) and operating cash flow ration (0.234), we result that the correlations between accounting earnings and stock yield is more than the correlations between operating cash flow and stock yield. Also, comparing operating earnings ratio (41.00) and operating cash flow ration (0.221) we result that in this group, too, the correlations between accounting earnings and stock yield is more than the correlation between operating cash flow and stock yield. Thus In both groups, accounting earnings is more appropriate for explaining stock yield operation, in other words whether information asymmetry is low or high, accounting earnings is better for explaining stock yield operation.

Conclusion:

In the Statistical test, performed for the first hypothesis, considering the operating earnings rations and operating cash flow, It can be concluded that the correlations between operating earnings and stock yield is more than the correlations between operating cash flow and stock yield. In other words, operating earnings can better explain the stock yield operation and is it a more suitable criterion for prediction. As a result, the first hypothesis, indicating that the variable of accounting earnings is more appropriate that the variables of cash flow for explaining stock yield operation is verified. The obtained results of this research is in accordance with the results of similar studies including the studies of Arab Mazar et al (1385), Rapp [17], Haw et al [11], Dichow [6], Freeman [8] Harris and Store (1991).

For testing the second hypothesis meaning the effect of information asymmetry on the informational contests of cash flow operation and accounting earnings, four virtual variables were considered as representatives of information asymmetry (the size of company based on equity market of shareholders, the ration of intangible assets to total assets the structure of ownership and finally the cost of research and development), and then based on each variable, the examined sample was divided into two categories and regression model was fitted and results were compared. In all four above phases, we resulted that anyway, the explanatory potential or informational contents of operating earnings is more than operating cash flow. As a result the second hypothesis (subsidary), assuming that with increases of information asymmetry, accounting variables, compared with the variables of cash flow have lower role in explanation of stock yield is rejected. The reason for this is that considering the viewpoint of informing capacity of accounting figures with increases of information asymmetry, supplementary information, available in accrual components become more relevant. As it was mentioned before, accounting earnings is consisted of cash items and promissory items. The promissory section is much more important for evaluating company’s operation. The promissory section gives more data to shareholders can better explain stock yield operation, Considering the low information asymmetry in companies with high free float stocks, compared with low free float stocks, it is recommended to investors to pay attention to the ownership factor of fund receiving companies. Also, considering the high information asymmetry in companies with low free float stocks, small investors are recommended to have more deliberation, when they want to purchase stocks of these companies.

Considering the role of ownership, composition in information asymmetry and its relation with stock yield, it is recommended to market authorities to create a situation in which the information related to the ownership composition of companies are available to all individuals. Securities and Exchange organization of Tehran and also Audit organization must create mechanisms like guidelines for exposing information, in order to increase transparency of financial data and decrease information asymmetry.

REFERENCES