

## The Effect of Information Transparency on Earnings Quality in Firms Accepted in Tehran Stock Exchange

Atena Ghasemi<sup>1</sup>, Elham Ghanavati<sup>2</sup>, Mir Hafez Amir Azad<sup>3</sup>

<sup>1</sup>Department of Accounting, East Azarbaijan Science and Research Branch, Islamic Azad University, Tabriz, Iran

<sup>2,3</sup>Department of Accounting, Tabriz Branch, Islamic Azad University, Tabriz, Iran

---

### ABSTRACT

The present research aims at studying the effect of information transparency on earnings quality in firms accepted in Tehran Stock Exchange. To measure information transparency we have used the privileges identified for each of the companies by Tehran Stock Exchange and three criteria were used to assess earnings quality as: 1) earnings quality based on operational cash flows and earnings, 2) earnings predictability, and 3) consistency of earnings reported. The time period for the present research entails the years between 2005 and 2009. To carry out the present research we have considered three hypotheses in medicine, automobile, chemical and cement industries and a multiple variables regression model has been utilized. The results showed that information transparency has a meaningful and positive effect only in medicine industry on prediction and consistency of earnings.

**Subject:** the present research aims at studying the effect of information transparency on earnings quality in firms accepted in Tehran Stock Exchange.

**Research method:** the time period of this research is the years between 2005 and 2009. To carry out the research, three hypotheses were taken into consideration in industries such as medicine, automobile, chemistry and cement. Pearson's correlation and multiple variable regression analysis have been used to achieve the goals. This research is of type experimental research in the field of descriptive-regression accounting and based on real data in the firm financial statements. In the other hand this research is of type correlation and can be used as applied research.

**Discussion:** In the present research, the effect of information transparency on earnings quality has been investigated in firms accepted in Tehran Stock Exchange. Firm size, financial leverage, and the ratio of current assets' return (the ratio of net earnings to total assets) were utilized as control variables.

**Conclusion:** the research results show that information transparency has meaningful and positive effect on prediction and consistency of earnings only in medicine industry.

**KEYWORDS:** information transparency, earnings quality, operational cash flows, earnings' predictability, earnings consistency

---

### INTRODUCTION

The main role of accounting information in financial markets is to create appropriate conditions to appropriate resources optimally. Following the recent financial scandals, the trust and confidence of investors to financial reporting system has been weakened and thus earnings quality has been taken into consideration as an important criterion to study the financial health of a business entity (Below Wary & et al, 2006). Earnings quality is a concept which is used broadly and without having a unified description. If there is not any specified criterion to assess it, there are some reasons which should be taken into consideration to assess earnings quality. During the recent 3 decades the discussion of earnings quality has been noticed by researchers and they have tried to assess earnings quality by achieving a valid and logical method and recognize the effective factors on it (Desai & et al, 2009). Generally speaking we can summarize earnings quality as returning cash or non-cash earnings or non-returning earnings. The assessment of earnings quality helps the users of financial statements to do judgments about the identification of their present incomes. For those who measure earnings quality it is important to know that whether the earnings with a lower quality is necessarily a state of weak financial reports or the incorrect use of accounting methods, judgments and estimations. In many cases, the items related to lower quality earnings is related to interactions which entail a high level of risk or ambiguity.

Earnings quality can be divided into three categories of earnings consistency, the levels of accruals and the earnings reflecting the related economic exchanges. Earnings consistency means the (continuation of) current earnings. The more earnings consistency means the more capability of a company to preserve the current earnings and it is supposed that the earnings quality of the company is also higher. Also the levels of accruals have a reverse relationship with earnings quality because the higher amounts of earnings' accruals will result in decreasing a firm's earnings quality. Also, if the accounting earnings reported reflects the real economic

transactions earnings quality will increase in the same direction. From among the three descriptions, we are not able to test the first and second categories practically and the third description is only a theoretical description (Mc Nichols, 2002).

In many methods, managerial analysis is considered as a main method for the manager to inform the investors about the earnings quality in a company. Most parts of earnings are not determined due to necessary estimations and judgments in utilizing accounting principles and the users of financial statements should be careful not to ignore complete and transparent revealing in their financial statements. Financial statements having ambiguity and lack of transparency reduce the trust of the stockholders and investors and remove their incentives to invest (Ghaemi & Alavi, 2012). In fact the main goal of revealing is to help users in making decisions about investing, interpretation of the financial status of the companies, the assessment of the performance of management, and the prediction of future cash flows. Therefore, all important facts about an economic unit should be revealed appropriately and completely to prepare the possibility for decision making and avoid wandering (Banimahd & Sharifi, 2010). Belkoe considered revealing entailing information which is useful for the ordinary investor and it does not lead to readers going astray. In other words, the revealing principle states that none of the important information considered by an ordinary investor should be deleted or hidden (Riyahi-e-Belkoe, 2002, 251). It would be necessary to prepare enough and needed information for the reader to understand the different parts of earnings, risks and ambiguities affecting the future of the company easily. The information needed for the investors is supplied through firms' managers and presented for the investors and the investors need some information due to information asymmetry which is reliable and useful. Thus, increasing the optional revealing will result in reducing information asymmetry among management and investors and it increases earnings quality (Francis & et al, 2008). And therefore, it results in more absorb of them to the company. Thus, companies have a high amount of incentive for more information revealing even if revealing is costly due to the outcomes of the production market (Lobov & Zoo, 2001). Therefore, increasing earnings quality and the reduction of information asymmetry is considered as the outcomes of revealing quality and information transparency. Therefore, the present research studies the effect of information transparency on earnings quality in firms accepted in Tehran Stock Exchange.

## RESEARCH LITERATURE

Golestone & Milgram (1985) modeled the relationship between firm revealing and information asymmetry for the first time. Their model showed that information asymmetry will decrease when revealing level of a company increases.

Worchia (1990) showed in a research entitled: "information quality and optional revealing" that an increase in quality of personal information will result in more revealing.

Lobov & Zoo (2001) studied the relationship between revealing quality and earnings management in a research paper about revealing quality and earnings management. Their research showed that there is a negative relationship between revealing quality and earnings management level and also the management has the needed flexibility to manipulate the amounts of the reported earnings. As a result the higher amount of revealing level of a company will lead to a lower management of earnings.

Shaw (2003) studied earnings' smoothening and the in time interaction between revealing level of the company and the type of recognizing the items in financial statements through the relationship between the rankings of financial analysts of the quality of revealing in companies, extraordinary accruals, and the relationship between earnings and returns in an article about firms' quality of revealing. The findings showed that firms with higher revealing quality use non-ordinary accruals for earnings management moiré than those which have a lower level of revealing. Thus, the in time earnings have a reverse relationship with revealing quality. These results show that higher revealing qualities can accompany additive earnings management.

Stephan Brown & Stephan Hilgiets (2006) found out in a research about the effect of the quality of revealing on information asymmetry in long-term that revealing quality and long-term information asymmetry have a reverse relationship.

New (2006) carried out a research entitled: "corporate governance and earnings quality in accounting". He used Canadian companies to study the relationship between corporate governance and the earnings quality of accounting. The research results showed that there is not any relationship between quality of revealing and non-optional accruals.

Francis and et al (2008) did a research entitled: "voluntary revealing, earnings quality and capital cost". Their findings showed that firms with high earnings quality have more voluntary revealing compared to firms with low earnings quality. Also they found that voluntary revealing is more related with lower capital level.

Kormeir & et al (2009) carried out a research project entitled: "the transparency of financial reporting and earnings quality". Their results showed that the decisions of managers for high quality earnings report are not isolated from the overall strategy of financial reporting. Also the results showed that financial markets react

positively to earnings quality and financial reporting based on world web. Additionally the board of directors have had an important role in this strategy.

Noravesh & Hosseini (2009) carried out a research about the relationship between quality of revealing (reliability and in time) and earnings management. The findings also showed that there is a negative and meaningful relationship between company revealing quality and earnings management. Also the research results showed a meaningful relationship between in time revealing of the company and earnings management.

Fakhkhari & Hedayat tabar (2011) carried out a research entitled: "studying the relationship between quality of revealing and earning management". Their results showed that there is a negative relationship between quality of revealing and earning management.

Although there have been a lot of researches done in Iran about quality of earnings such as the relationship between earnings quality and stock return (Esmaeeli, 2006), cash and earnings quality (Taghavi, 2010), studying the relationship between earnings smoothening, earnings quality and firm value of companies accepted in Tehran Stock Exchange (Demori & et al, 2011), studying the relationship between earnings quality (earning consistency), size of accruals and stock return with the quality of accruals (Dastgir & rastegar, 2011), studying the consistency of earnings in cash in companies accepted in Tehran Stock Exchange (Khodadadi & et al, 2012), the effect of information transparency on earnings quality has not been investigated yet.

## RESEARCH METHOD

This research is of type experimental research in the field of descriptive-regression accounting and based on real data in the firm financial statements. In the other hand this reaserch is of type correlation and can be used as applied research.

### Statistical society and research sample:

The statistical society under investigation in this research entails firms accepted in Tehran Stock Exchange in medicine, automobile, chemistry and cement and the research period is between the year 2005 and 2009. In this research we have used the systematic deletion method to achieve the sample. The criteria considered to select the sample are as follows:

- 1) The company should have been accepted in Tehran Stock Exchange and it should not have transaction quits for more than 6 months.
- 2) It should not be among the banks and financial entities (investing companies, financial intermediaries, holding companies, and leasing).
- 3) The annual degree of the quality of revealing of the company and the information needed to calculate research variables in the years under investigation should be accessible.
- 4) There should be at least 5 companies in the industry.

By applying the limitations above 15 companies in medicine industry, 10 companies in automobile industry, and 12 companies in chemistry and 10 cement companies were chosen. Therefore these hypotheses will be tested with multiple variable regression. Required data at first is provided in Excel pages and then is analyzed by SPSS software.

### Research Hypothesis:

To study the effect of information transparency on earnings quality, the following hypotheses were posed:

- 1) Information transparency affects earnings predictability in predicting cash flows.
- 2) Information transparency affects earnings prediction (reliability).
- 3) Information transparency affects earnings consistency.

### Research Variables:

In this research earnings quality is dependent variable and information transparency is independent variable. Also firm size, financial leverage, and the ratio of current assets' return are considered as control variables.

### Dependent Variable: Earnings Quality

In the present research earnings quality has been measured by using three methods:

- 1) The primary description of earnings quality is based on operational cash flow and earnings or earnings parts. In other words  $R^2$  is resulted from the regression of operational cash flows and earning is considered to be a criterion for earnings quality. To do so, model (1) has been estimated:

$$CFO_{j,t+1} = \beta_0 + \beta_1 PROF_{j,t} + \varepsilon_{j,t}$$

Where,

$CFO_{j,t+1}$ : Cash flow resulting from the operations of firm j for the year t+1 calculated as follows.

Cash flow: operational earning after the reduction of interest and taxation + depreciation cost+/- changes in current assets and debts.

$PROF_{j,t}$ : Annual earnings before non-ordinary items of the company j for the year t.

2) The second description of earnings quality is based on earnings' predictability (reliability). For this reason we have estimated model (2).

$$PROF_{j,t+1} = \beta_0 + \beta_1 PROF_{j,t} + \varepsilon_{j,t}(2)$$

The higher amounts of  $R^2$  resulting from the regression of future profits and the historical earnings reported will result in earnings predictability and thus the quality of earnings is higher.

3) The third description of earnings quality is based on the consistency of the reported earnings. Earning consistency means the frequency (continuance) of the current profit. The more earning consistency means that the company has more flexibility to maintain the present profits and it is supposed that earning quality of the company is higher. To measure earning consistency we consider the descriptive variable coefficient in model (2),  $PROF_{j,t}$  which is the same as  $\beta_1$  in the model representing earning consistency. If the descriptive variable coefficient is meaningful statistically, the consistent profit is taken into consideration (Saghafi & Kordestani, 2004).

**Independent Variable: Information Transparency**

The rank for transparency in bourse means the amount of access of information for bourse organization and stockholders and it is mentioned in newspapers in front of numerical information of companies and the lower number is the better. In fact the rank of transparency is transparency in financial reporting. Bourse ranks companies based on the reporting in time and the correctness of predictions and the reliability of the reports of the companies and shows it in transparency ranking report. Every company that has a better transparency will encounter less ambiguity for investment. The amounts of the quality of revealing of the companies accepted are calculated for the periods of 3, 6, 9, and 12 months and then they were published for the years after 2003. These ranks reflect the assessment of bourse about the amount of informing caused by company revealing. The ranks mentioned were calculated based on the weight average of the criteria of being in time and the reliability of the revealed information. The assessed information are based on the regulations of revealing information in bourse such as annual financial statements, interim financial statements of 3, 6 (audited) months and 9 months and the prediction of the income of each share is determined for the time periods of 3, 6, 9, and 12 months. The delays in sending information to bourse are calculated regarding the time periods identified beforehand and the difference in realized earnings are calculated regarding the predictions to calculate being n time and reliability of revealing. To calculate total rank of company revealing, the criteria of being in time and reliability were utilized by two third and one third weights.

In the present research, we have used the following variables as control variables.

$Size_{i,t}$ : the size of firm i in the year t (total assets' logarithm), the bigger companies tend more to reveal their information because the average revealing cost has a reverse relationship with size and broadness of the company. Besides that bigger companies engage less in earnings management due to the revision and investigation being made more exactly by a great number of investors and analysts. Thus, managers of companies with good performances tend more to publish their information compared to companies with weaker performances (Lobov & Zoo, 2001).

$LEV_{i,t}$ : financial leverage of firm i in the year t, also the debt structure of the company can be considered as an effective factor in earnings management.

It is expected that there would be less earnings management in firms with more sever debt structure and thus the quality of earning increases.

$ROA_{i,t}$ : the ratio of assets' return or the ratio of net income to total assets.

**Data analysis:**

**Testing the normality of data**

To test the normality of the hypotheses we have used Kolomogorov-Smirnov's test and the results are presented in figure (1).

**Figure (1): The results of Kolomogorov-Smirnov's test**

Variables	Symbols of variables	Medicine		Automobile		Chemistry		Cement	
		Z statistics	sig.	Z statistics	sig.	Z statistics	sig.	Z statistics	sig.
Prediction cash flows	PCFO	1.188	0.119	1.043	0.227	1.325	0.060	1.268	0.080
Earnings prediction	PROF	1.257	0.085	1.193	0.116	1.225	0.100	1.260	0.084

Earning consistency	STABLE	0.510	0.957	0.809	0.529	1.016	0.253	0.441	0.990
Information transparency	TR	1.171	0.129	0.680	0.744	0.785	0.569	0.656	0.783
Leverage	LEV	0.417	0.995	0.694	0.721	0.863	0.446	0.813	0.524
Firm size	SIZE	0.771	0.591	0.865	0.443	0.780	0.578	0.631	0.821
Assets' return rate	ROA	0.675	0.753	0.835	0.489	1.106	0.173	0.958	0.318

The results of (K-S) test show that all variables in this research follow a normal distribution structure.

**Descriptive statistics:**

The descriptive statistics of the present research represents a schematic view of the research data which is presented below.

Variable	Mean				Minimum				Maximum				Criterion deviation			
	Medicine	Automobile	Chemistry	Cement	Medicine	Automobile	Chemistry	Cement	Medicine	Automobile	Chemistry	Cement	Medicine	Automobile	Chemistry	Cement
PCFO	0.368	0.317	0.356	0.321	0.000	0.000	0.001	0.001	0.968	0.943	0.996	0.944	0.309	0.291	0.334	0.319
PROF	0.586	0.301	0.372	0.249	0.000	0.000	0.000	0.000	0.988	0.987	0.903	0.955	0.321	0.287	0.310	0.248
STABLE	0.834	0.370	0.448	0.108	-0.3	-0.6	-2.9	-0.9	2.31	2.30	2.390	1.227	0.564	0.585	0.816	0.507
TR	69.72	44.72	50.73	56.26	17	4	9	15	97	91	89	92	17.82	21.69	21.18	20.77
LEV	0.617	0.650	0.536	0.541	0.377	0.390	0.039	0.186	0.836	0.924	0.885	0.846	0.114	0.153	0.225	0.162
SIZE	5.58	6.42	6.064	6.29	5.02	4.79	5.35	5.53	6.20	7.90	7.02	6.909	0.271	0.935	0.479	0.320
ROA	0.184	0.104	0.188	0.179	0.028	0.002	-0.1	0.040	0.455	0.282	0.543	0.526	0.079	0.062	0.142	0.103
	Medicine				Automobile				Chemistry				Cement			
	70				50				60				50			

**Correlation coefficient:**

The Pearson's correlation coefficient in medicine, automobile, chemistry, and cement industries are presented in the figures (3), (4), (5) and (6), respectively. These statistics are utilized to study the existence and direction of the linear correlation between the research variables. The results presented in figure (3) regarding the medicine industry show that there is a meaningful and negative relationship between prediction of cash flows and firm size (-0.281) in the error level of %5 and the variable of earnings prediction and the rate of assets' return (0.574) has a meaningful and positive correlation in an error level of %1.

**Figure (3): Pearson's correlation coefficients (medicine industry)**

Symbols of variables		PCFO	PROF	STABLE	TR	LVE	SIZE	ROA
PCFO	Pearson Correlation	1						
	Sig							
PROF	Pearson Correlation	-.058	1					
	Sig	.621						
STABLE	Pearson Correlation	.184	.708**	1				
	Sig	.114	.000					
TR	Pearson Correlation	.078	.215	.180	1			
	Sig	.504	.064	.123				
LEV	Pearson Correlation	.086	-.192	-.118	-.026	1		
	Sig	.464	.099	.314	.825			
SIZE	Pearson Correlation	-.281*	.180	-.075	.210	-.057	1	
	Sig	.015	.122	.522	.070	.627		
ROA	Pearson Correlation	-.044	.574**	.462**	.051	-.621**	.114	1
	Sig	.709	.000	.000	.664	.000	.331	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

There is a positive and meaningful relationship in an error level of %1 between earnings consistency and the rate of assets' return (0.487).

The results presented in figure (4) about automobile industry show that there is a meaningful correlation between the variable of predicting cash flows and information transparency (-0.489) and firm size (0.510) in an error level of %1 and the financial leverage (0.323) in an error level of %5. Also there is a meaningful and positive correlation between profit prediction variable and assets' return rate (0.487) in an error level of %1.

**Figure (4): Pearson's correlation coefficients (automobile industry)**

		PCFO	PROF	STABLE	TR	LVE	SIZE	ROA
PCFO	Pearson Correlation	1						
	Sig							
PROF	Pearson Correlation	.351*	1					
	Sig	.012						
STABLE	Pearson Correlation	.197	.596**	1				
	Sig	.171	.000					
TR	Pearson Correlation	-.489**	-.121	-.084	1			
	Sig	.000	.402	.563				
LEV	Pearson Correlation	.323*	-.106	-.133	-.311*	1		
	Sig	.022	.464	.357	.028			
SIZE	Pearson Correlation	.510**	.245	.166	-.692**	.329*	1	
	Sig	.000	.087	.249	.000	.020		
ROA	Pearson Correlation	.185	.487**	.230	.034	-.658**	.031	1
	Sig	.199	.000	.107	.817	.000	.830	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The results presented in figure (5) about chemistry industry show that there is a meaningful and positive correlation between the variable of predicting cash flows and assets' return rate (0.576) in an error level of %1. Also there is a meaningful and negative correlation between profit prediction variable and financial leverage (-0.502) and assets' return rate (-0.534) in an error level of %1.

**Figure (5): Pearson's correlation coefficients (chemistry industry)**

		PCFO	PROF	STABLE	TR	LVE	SIZE	ROA
PCFO	Pearson Correlation	1						
	Sig							
PROF	Pearson Correlation	.671**	1					
	Sig	.000						
STABLE	Pearson Correlation	.261	.321*	1				
	Sig	.052	.016					
TR	Pearson Correlation	.113	.120	.141	1			
	Sig	.407	.379	.301				
LEV	Pearson Correlation	-.202	-.502**	-.288*	-.040	1		
	Sig	.135	.000	.031	.767			
SIZE	Pearson Correlation	-.167	.006	.000	.115	-.228	1	
	Sig	.219	.963	.997	.398	.092		
ROA	Pearson Correlation	.576**	.534**	.267*	.157	-.440**	.266*	1
	Sig	.000	.000	.047	.248	.001	.047	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

There is a meaningful correlation between earnings consistency and financial leverage (-0.288) and assets' return rate (0.267) in an error level of %5.

The results presented in figure (6) about cement industry show that there is a meaningful correlation between the variable of predicting cash flows and firm size (-0.330) and assets' return rate (0.338) in an error level of %5.

Also there is a meaningful correlation between profit prediction variable and firm size (-0.458) and assets' return rate (0.484) in an error level of %1. There is a correlation between earnings consistency and assets' return rate (0.509) in an error level of %1.

**Figure (6): Pearson's correlation coefficients (cement industry)**

		PCFO	PROF	STABLE	TR	LVE	SIZE	ROA
PCFO	Pearson Correlation	1						
	Sig							
PROF	Pearson Correlation	.307*	1					
	Sig	.038						
STABLE	Pearson Correlation	.293*	.530**	1				
	Sig	.048	.000					
TR	Pearson Correlation	-.023	-.084	-.144	1			
	Sig	.881	.581	.338				
LEV	Pearson Correlation	-.087	.188	-.082	-.075	1		
	Sig	.564	.212	.589	.622			
SIZE	Pearson Correlation	-.330*	-.458**	-.230	-.065	-.349*	1	
	Sig	.025	.001	.124	.666	.017		
ROA	Pearson Correlation	.338*	.484**	.509**	-.277	-.209	-.395**	1
	Sig	.022	.001	.000	.062	.164	.007	

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Results of testing the hypotheses:**

**Testing the first hypothesis:** information transparency affects profit prediction in cash flows prediction. The first hypothesis based on the following model is tested and represented in figure (7).

**Figure (7): Results of testing the first hypothesis**

PCFO = α + β1TR + β2 Size + β3 LEV + β4 ROA + ei,t												
industry	medicine			automobile			chemistry			cement		
	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value
α	1.971	2.529	0.014	-0.83	-2.048	0.046	1.48	3.060	0.004	2.39	1.730	0.091
TR	0.003	1.244	0.218	-0.01	-1.512	0.137	0.001	0.461	0.647	-9.43	-0.04	0.969
LEV	0.274	0.700	0.486	1.10	3.573	0.001	0.02	0.120	0.905	-0.32	-0.94	0.353
Size	-0.354	-2.67	0.009	0.05	0.922	0.362	-0.24	-3.17	0.003	-0.32	-1.71	0.094
ROA	0.182	0.324	0.747	2.65	3.731	0.001	1.57	5.58	0.000	0.55	0.96	0.314
R <sup>2</sup>	0.10			0.47			0.44			0.17		
Adjusted R	0.05			0.43			0.40			0.09		
D-W	2.032			1.678			1.550			2.105		
F	P-value	2.053	0.096	10.281	0.000	10.195	0.000	2.229	0.083			

By studying the overall regression model regarding F statistics it can be observed that in automobile and chemistry industries P-value (0.000) is less than %5. Therefore the presupposition of linearity of the model in an assurance level of %95 is approved. But in medicine and cement industries the P-value (0.083 and 0.096) is higher than %5 and the total model is rejected in an assurance level of %95. Regarding the meaningfulness of t test an amount of information transparency coefficient (TR) is observed in the regression model which is not meaningful statistically in none of the industries. Thus, the first hypothesis is based on the fact that information transparency does not affect the prediction of cash flows in all industries.

In automobile industry the financial leverage (1.103) and assets' return rate (2.652) with P-values of less than %5 have positive and meaningful effects on prediction of cash flows. These results accord with claims of Lobov & Zoo (2001) and Saghafi & Sadidi (2008) and contradict with the research results of Fakhkhari & Hedayat tabar (2011). Also firm size (-0.242) and assets' return rate (1.567) in chemistry industries affects the prediction of cash flows in an assurance level of %95. Durbin-Watson's coefficient in each industry shows the lack of existing correlation among the independent variables.

**Testing the second hypothesis:** information transparency affects earnings prediction. The second hypothesis is tested based on the model presented in figure (8).

**Figure (8): Results of testing the second hypothesis**

		PROF = $\alpha + \beta_1 TR + \beta_2 Size + \beta_3 LEV + \beta_4 ROA + \epsilon_i t$											
Independent Variable	industry	medicine			automobile			chemistry			cement		
		Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value
$\alpha$		-1.137	-1.732	0.088	-0.782	-1.733	0.090	1.181	2.563	0.013	0.768	0.806	0.425
TR		0.003	1.802	0.076	0.001	0.413	0.682	0.001	0.568	0.572	0.001	0.364	0.718
LEV		0.745	2.260	0.027	0.580	1.691	0.098	-0.496	-2.977	0.004	0.340	1.457	0.153
Size		0.092	0.827	0.411	0.052	0.961	0.961	-0.125	-1.720	0.092	-0.149	-1.171	0.248
ROA		2.902	6.132	0.000	3.132	3.966	0.000	0.912	3.395	0.001	1.123	2.860	0.007
R <sup>2</sup>		0.41			0.33			0.41			0.35		
Adjusted R		0.37			0.27			0.36			0.28		
D-W		2.489			2.062			1.956			1.951		
F	P-value	12.310	0.000	5.631	0.001	8.872	0.000	5.572	0.001				

By studying the overall regression model regarding F statistics it can be observed that in all four industries P-value (0.000) is less than %5. Therefore the presupposition of linearity of the model in an assurance level of %95 is approved. Regarding the meaningfulness of t test an amount of information transparency coefficient (TR) is observed in the regression model which is meaningful in medicine industry with P-value of (0.076) in an assurance level of %90 and the effect of information transparency on reliability is positive and meaningful. Thus, by increasing information transparency, earnings prediction is carried out better and thus earnings quality increases. This result accords with findings of Fakhkhari & Hedayat tabar (2011), Golestono Molgram (1985), Jerald Jilobo & Jane Zoo (2001), Hojokim (2007), Stephan Bruno & Stephan Hilgits (2006), and Kormier & et al (2009) and contradicts with findings of Kons Shaw (2003). The adjusted identification coefficient in medicine industry is %37 and it shows that the independent variable can determine the dependent variable accordingly. The meaningful effect of information transparency on earnings prediction in other three industries is not approved.

In medicine and automobile industries the financial leverage (0.580, 0.745) and assets' return rate (3.132, 2.902) with P-values of less than %5 and %10 there is a positive and meaningful effect on prediction of cash flows. Also the financial leverage (-0.496) and firm size (-0.125) and assets' return rate (0.912) have an effect on earnings prediction in an assurance level of %95 (ROA, LEV) and Size in assurance level of %90 in chemistry industry. Durbin-Watson's coefficient in each industry also shows that there is not any correlation between the independent variables.

In cement industry the assets' return rate (1.123) with a P-value of less than %5 has a positive and meaningful effect on earnings prediction. Regarding the figure above, it can be observed that in 4 industries above the assets' return rate affects earnings prediction.

**Testing the third hypothesis:** information transparency affects earnings consistency. The third hypothesis is tested based on the model presented in figure (9).

**Figure (9): Results of testing the third hypothesis**

		STABLE = $\alpha + \beta_1 TR + \beta_2 Size + \beta_3 LEV + \beta_4 ROA + \epsilon_i t$											
Independent Variable	industry	medicine			automobile			chemistry			cement		
		Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value	Coefficient	t-statistic	P-value
$\alpha$		0.734	0.590	0.557	-0.466	-0.432	0.668	1.653	1.122	0.267	-0.023	-0.011	0.991
TR		0.006	1.877	0.065	0.001	0.146	0.885	0.004	0.878	0.384	0.000	-0.053	0.958
LEV		1.371	2.194	0.032	-0.306	-0.373	0.711	-0.839	-1.576	0.121	0.033	0.064	0.949
Size		-0.359	-1.692	0.095	0.130	0.998	0.323	-0.194	-0.830	0.410	-0.049	-0.178	0.860
ROA		4.551	5.070	0.000	1.589	0.841	0.405	1.017	1.184	0.242	2.433	2.837	0.007
R <sup>2</sup>		0.31			0.08			0.13			0.26		
Adjusted R		0.27			0.00			0.06			0.18		
D-W		2.144			1.576			1.809			1.566		
F	P-value	7.951	0.000	1.004	0.416	1.910	0.123	3.607	0.013				



By studying the overall regression model regarding F statistics it can be observed that in medicine and cement industries P-value is less than %5. Therefore it is meaningful in an assurance level of %95 but it is not meaningful in automobile and chemistry industries. Regarding the meaningfulness of t test an amount of information transparency coefficient (TR) is observed in the regression model which is meaningful in medicine industry with P-value of (0.065) in an assurance level of %90 and the effect of information transparency on earnings consistency is positive and meaningful. Thus, by increasing information transparency, managers will have less incentive to manipulate earnings and thus earnings consistency will increase and the business entity will have more power to maintain the current profits and the earnings quality of the business entity will increase. This result accords with findings of Fakhkhari & Hedayat tabar (2011), Golestono Molgram (1985), Jerald Jilobo & Jane Zoo (2001), Hojokim (2007), Stephan Bruno & Stephan Hilgits (2006), and Kormier & et al (2009) and contradicts with findings of Kons Shaw (2003). The adjusted identification coefficient in medicine industry is %27 and it shows that the independent variable can determine the dependent variable accordingly. The meaningful effect of information transparency on earnings consistency in other three industries is not approved.

Financial leverage (-0.496) and firm size (-0.125) and assets' return rate (0.912) have an effect on earnings consistency in an assurance level of %95 (ROA, LEV) and Size in an assurance level of %90 in cement industry. Also in cement industry the assets' return rate with P-value of less than %5 has a positive and meaningful effect on earnings consistency. Durbin-Watson's coefficient in each industry also shows that there is not any correlation between the independent variables.

## CONCLUSIONS

The results of testing the hypothesis by using the information related to companies present in Tehran Stock Exchange were shown for the time period between 2005 and 2009 in medicine, automobile, chemistry, and cement industries and it was shown that information transparency is positive and meaningful only in medicine industry regarding the two criteria of prediction and earnings consistency. These findings showed that by increasing information transparency, managers will have less incentive to manipulate earnings and therefore earnings consistency and its reliability will enhance and the business entity will have more power to maintain the current profits. Thus, earnings quality in the business entity will increase. Therefore it is suggested for the users of financial statements not to ignore complete and transparent revealing in financial statements and pay more attention when the reported earnings quality is assessed. Also it is suggested for the managers to reveal the important realities of the economic unit in an appropriate and complete way to prepare the possibility of masking appropriate decisions for the investors. These results accord with findings of Fakhkhari & Hedayat tabar (2011), Golestono Molgram (1985), Jerald Jilobo & Jane Zoo (2001), Hojokim (2007), Stephan Bruno & Stephan Hilgits (2006), and Kormier & et al (2009) and contradict with findings of Kons Shaw (2003).

## REFERENCES

- 1- Banimahd, Bahman; Mohseni-e-Sharif, Mohsen (2010), "Studying the effective factors in ranking firms accepted in Tehran Stock Exchange regarding quality of revealing and being in time", *Journal of Accounting Management*, Year 3, No. 7.
- 2- Saghafi, Ali; Kordestani, Gholamreza (2009), "Studying and identifying the relationship between earnings quality and the reaction of market towards cash earnings changes", *Journal of Accounting and Auditing Studies*, Year 11, No. 37, 51-72.
- 3- Riyahi-e-Belkoe, Ahmad (2002), "Accounting theories", translated by Ali Parsaeeayan, Tehran, Termeh Publications.
- 4- Fakhkhari, Hossein; Hedayat tabar, Sahar (2011), "Studying the relationship between the quality of revealing and earnings management in firms accepted in Stock Exchange", 9<sup>th</sup> National Congress on Accounting in Iran, Zahedan, Sistan & Baluchestan University, 11 & 12 May 2011.
- 5- Ghaemi, Mohammadhossein; Alavi, Seyyed Mostafa (2012), "The relationship between information transparency in accounting and cash", *Quarterly Journal of Accounting Management*, Year 5, No. 12.
- 6- Noravesh, Iraj; Hosseini, Seyyed Ali (2009), "Studying the relationship between quality of revealing (reliability and being in time) and earnings management", *Journal of Accounting and Auditing Studies*, Period 16, No. 55, 117-134.
- 7- Brown, Stephen. Hillegeist, Stephen A (2006). How Disclosure Quality Affects the Long-run Level Information Asymmetry , Accounting Research Center at Northwestern University.

- 8- Bellovary, J., Giacomino, D., Akers, M. (2006). A review of bankruptcy prediction studies: 1930 to present. Retrieved March 14, 2006, from <http://www.ebsco.com>.
- 9- Drake, Michael S. Myers, Jams N. Myers Linda A (2008). Disclosure Quality and the Mispricing of Accruals and Cash flow , Accounting Department Mays Business School.
- 10- Desai, H. Bhattacharya , N. Venkataraman, K.(2009) ." Earnings Quality and Information Asymmetry", available at [www.ssrn.com](http://www.ssrn.com).
- 11- Francis. J, Nanda. D, Olsson. P. (2008), "Voluntary Disclosure, Earnings Quality, and Cost of Capital", Journal of Accounting Research, Vol. 46 No.
- 12- Glosten , L. and Milgrom , P.( 1985) , "Bid-ask and transaction prices in a specialist market with heterogeneously informed traders", Journal of Financial Economics 26 (march), :p 71-100.
- 13- <http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Documents/Financial%20Reporting/Transparency/QualityOfEarningsBookletAndPresentation.pdf>.
- 14- Lobo, Gerald J .Zhou Jian (2001)," Disclosure Quality and Earning Management". Asia pacific, Journal of Accounting and Economics Symposium in Hong Kong. 2001
- 15- Mc Nichals, M.(2002) ."discussion of the quality of accruals and earnings " , the role of accruals estimations errors " , the Accounting review.
- 16- Shaw Kenneth W(2003) , "corporate disclosure quality, earning smoothing , and earnings, timeliness".Journal of Business Research 56,p 1043-1050.
- 17- Verrecchia, R (1990). "Information Quality and Discretionary Disclosure." Journal of Accounting & Economics 12: 365–380.