



# Economic and Cash Value Added and Earnings Forecasts Error

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In decision making process, investors focus on information such as earnings per share forecasts and they use this information in stock pricing. Therefore, earnings forecast error is important information for investors because investors' decisions about stock purchase, sell and holding is based on this information. Thus, earnings forecast error is a main factor in secondary market performance. This study examines the relative information content of value added (including economic value added and cash value added) beyond earnings and operating cash flow. Thus, the relationship between earnings forecasts error and changes in value added, cash value added, earnings and operating cash flow, was examined based on data gathered of production companies at Tehran Stock Exchange (TSE) in the period of 2001 through 2006. For testing the hypotheses of this research, regression method and GLS technique was used, for both cross-sectional and pooled data. The result shows that: Economic value added and cash value added based on pooling data have significant positive relationship with earnings forecasts error, but operating cash flow and earnings neither has significant relationship with earnings forecasts error. Economic value added and earnings based on cross sectional data have significant negative relationship with earnings forecasts error, but operating cash flow and cash value added neither has significant relationship with earnings forecasts error. Economic value added has greater information content in comparison to cash value added, earnings and operating cash flow.

**Keyword: Value Added, Cash Value Added, Earnings Forecasts Error, Relative Information Content.**



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