

The Effects Of Income Smoothing on Information Content Of Earnings in Companies Listed in Tehran Stock Exchange

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This Paper examines the effects of income smoothing on the information content of earnings. The research question is that whether income smoothing garbles earnings, or improves the information content of earnings for predicting earnings, operating cash flow, and accruals. In the research, we have developed three hypotheses to answer the question. For the purpose of hypotheses testing, a sample of companies listed on Tehran Stock Exchange is used. Income smoothing is measured through negative correlation between the changes in discretionary accruals (ΔDAP) and changes in earnings pre-discretionary accruals (ΔPDI). To estimate the discretionary accruals, the cross-sectional version of modified Jones model was used for a period of 1997-2004, then to test research hypotheses following Collins et al (1994), the primary and extended models estimated. For estimating the models, we use financial information of the sample companies for the period of 2000-2006.

The results show that income smoothing increases the strength of income for forecasting earnings and operating cash flows but dose not for accruals.

Key words : Income smoothing , Information Content of Earnings , Discretionary Accruals

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