An Investigation on the Impacts of Good/Bad News on Investors' Understandings of Persistence of Accruals in Tehran Stock Exchange (TSE)

Parivash Kazemi[1], Sead Ali Vaez[2], Mohammad Ramazan Ahmadi[3]

[1]Master of Accounting, Persian Gulf International Educational Branch,
Islamic Azad University, Khorramshahr, Iran
[2]Assistant Professor of Accounting, Persian Gulf International Educational Branch,
Shahid Chamran University of Ahvaz, Iran
[3]Assistant Professor of Accounting, Persian Gulf International Educational Branch,
Shahid Chamran University of Ahvaz, Iran

Corresponding Author: Parivash Kazemi, E-mail: privashkazemi1@gmail.com

Abstract: The purpose of this study is to investigate the impacts of publishing positive and negative information and news about the stock return of the companies listed in TSE on the investors' understanding of the persistence of accruals. To this end, among the companies listed in TSE during 2003-2010, a total of 283 companies were selected for study. Descriptive statistics, Pearson correlation coefficients, linear regression with combined data, simultaneous equations system with combined data and Mishkin likelihood test (1983) were used for to data analysis. The results revealed that there is an indirect/direct relationship between good/bad news and the persistence of accruals. Also, under the influence of published information about stock return, investors do not have a right understanding of the accruals persistence which will result in accrual anomaly in market.
[Parivash Kazemi, Sead Ali Vaez, Mohammad Ramazan Ahmadi. **An Investigation on the Impacts of Good/Bad News on Investors' Understandings of Persistence of Accruals in Tehran Stock Exchange (TSE)**. *J Am Sci* 2013;9(5): 456-465]. (ISSN: 1545-1003). http://www.jofamericanscience.org. 60

Keywords: accrual false pricing, persistence of profit, Mishkin likelihood test

INTRODUCTION

The purpose of investing in stocks is to maximize profit and welfare of investors. The efficiency of capital market has been widely considered in financial studies. According to Fama (1991), an efficient market is a market where stock prices perfectly reflect all available data and on the other hand capital market reflects the impact of new information on stock prices timely and out of psychological biases [6]. Another assumption which is available in an efficient market is that in this market investors behave rationally when they receive new information [9]. The studies carried out in recent decades indicate the possibility of predicting future trend of stock by observing previous trends. Verification of this assumption is indeed an important challenge of an efficient market hypothesis which has attracted the attentions of capital markets of developed countries since 1970s and has been the governing theory since that time. The phenomenon is the irrational reaction of investors to new information and news. In other words, people show different reactions to new information under the influence of psychological and behavioral parameters. In some cases they are irrational reactions which generate some abnormalities like excessive increase or decrease of prices.

Therefore, this subject could be studied within the frameworks of the assumptions of wrong reaction of market When investors analyze accruals wrongly with the minimum level of accuracy and show uncommon reaction due to low experience, the future stock return will differ from the expected one. For this reason and due to the irrational reactions of investors to new information of stock exchange market as well as due to the importance of the persistence of profit and its components, especially accruals, and on the other hand regarding the fact that no integrated research has been conducted in this field ever, it is necessary to perform a comprehensive research in Iran in order to help investors to choose the most appropriate investing approach to maximize their stock return.

To this end and, with respect to the importance of this subject, this study is about to answer the following questions: Does the persistence of accruals vary with the published news about stock return? Could investors have a right understanding of the persistence of accruals based on the published news about stock return? A scientific evaluation aiming at answering the questions is the main purpose of this study which could help and lighten the way of investors in making decisions encouraging them to use

the comments and consultations of financial analyzers.

LITERATURE REVIEW

Different factors and structures form investors' behaviors. Investors do not make decisions merely under the influence of economic and intellectual factors and other issues like investment horizon, risk tolerance, self-confidence of investors against options and process of investing in market and similar parameters have significant influence on investors' behaviors and their reaction to information which form the coping styles of investors.

Many evidences are available in the world's stock exchange market about uncommon behavior of stock price due to excessive sensitivity of investors or underreaction of them compared with expected reaction in long term and short term periods. According to De Bont and Taller, a series of psychological theories could interpret investors' behaviors[4]. Fama (1991) believes that a special type of behavioral biases is available in information process which causes the same investors to show overreaction to some events and underreaction to other ones [6]. In general, the rate of over/ underreaction depends on the extent to which investors understand the primary principles/information. If the principles could be easily understood by a vast majority of people, the over/under ranges of reactions will be very small [14].

In the presentation of the results of his research Sloan (1996) presented evidences showing that there is a negative relationship between accruals and future stock return. He states that when investors shape their expectations of profit, they intend to overestimate the persistence of accruals and underestimate the persistence of cashes]12[.The results reveal that in the event of founding stock exchange strategy on investors' false understanding of the persistence of profit components, significant abnormal return would be the result. Investors' false understanding of the persistence of profit components especially accruals is called false-pricing or accrual anomaly. Sloan believes that the reason of the formation of accrual anomaly is the wrong reaction of inexperienced investors to the changes of accruals.

The results of Sloan (1996) researches were confirmed by the lapse of time by other researchers. In next articles researches could repeat Sloan's results in different periods of time and with different definitions. Moreover, the articles recognized some components of Sloan's results and tried to explain why accruals are generated [Chan et al, 2006; Collins and Haribar, 2000; Thomas and Zhang, 2002; Xie, 2001]. For this reason and in line with the researchers, many other studies have evaluated the reason/reasons. You can find below some of the most important studies related to this subject carried out in other countries:

Baso (1997) states that reflecting conservatism by accruals results in predictable differences between the features of cash flows and accruals. He shows that profit is in time thanks to the on time recognition of bad news through accruals. However, accruals do not recognize good news more timely than cash flows [1].

Xie (2001) found that first of all, the abnormalities of accruals are generated due to discretionary accruals [15].

In his study with the title of "accrual profit and growth; concepts for future profiting and false pricing in market." Fieberfield et al (2003) investigated the relationship between accruals and companies' growth. In this research they divided the profit to accruals and operational cash flow. They also divided net growth of assets to accruals and net growth of long term assets and found that both components of the net growth of assets i.e. accruals and net growth of long term assets have negative relationship with future return of assets. They finally concluded that accruals anomaly is a special type of common abnormal growth which is created due to the wide use of conservative accounting methods or due to the descent of final return of new investments. Researches carried out in this filed create a negative relationship between accruals and companies' future stock return [5].

Hirshleifer et al (2009), investigated the relationship of accruals and cash flows with return and stock amount. According to their findings, there is a considerable positive relationship between accruals amount and stock return. Also, there is a negative relationship between cash flows amount and stock return [8].

In Iran the following items are the background of the studies carried out in this field: Mehrara and Abdoli, (2008) investigated the role of good/bad news in stock return fluctuations. They investigated the relationship between return shocks or stock price (news) and conditional fluctuations. The experimental evidences of their studies show that the effects of negative price shocks (bad news) and positive ones (good news) on the future fluctuations of prices are not statistically different. This means that both good and bad news with the same size have the same influence on the conditional fluctuations of return [10].

In her study, Masoumeh Naderi, (2008) investigated the overreaction of TSE investors to the published news and information in both economic recession and prosperity conditions. He considered positive regulations as good news and negative regulations as bad news and investigated the

investors' reactions in economic recession and prosperity conditions. Her results revealed that the market reacts to new information with delay which could be originated from different reasons like wrong change of information by investors, improper informing of news and lack of financial analyzers in TSE and so on. However, the results indicate the sensitivity of market to new information.

Her results showed that in some conditions the market shows an over, under, short term and weak reaction to news which is not statistically significant [7].

Mehrani and Nonahal-e-Nahar, (2009) investigated the possibility of increasing investments return and gaining abnormal returns through employing inverse transaction strategy in TSE. Statistical population of this study consisted of five basic industries. The time scope of the study was 2001 to 2006. Their results confirmed the overreaction of TSE investors. In addition, based on their arguments, the overreaction of Iranian investors to bad news is higher than their overreaction to good news [11].

STUDY HYPOTHESES

With respect to the matters presented in the literature section, study hypotheses are presented as follows:

Hypothesis 1: in the event of bad news (compared with null news) the persistence of accruals is decreased.

Hypothesis 2: in the event of good news (compared with null news) the persistence of accruals is decreased.

Hypothesis 3: in the event of bad news, investors do not have a right understanding of the persistence of accruals.

Hypothesis 4: in the event of good news, investors do not have a right understanding of the persistence of accruals.

STUDY DATA, STATISTICAL POPULATION AND SAMPLE

The data used in this study was collected in two stages. In the first stage, data was collected and reported by desk method from both Farsi[1] and English articles by referring to related websites in order to prepare theoretical grounds of the research. In the second stage, the data related to research variables was collected by referring to financial statements of the companies listed in TSE[2] as well as other related resources like Tadbirpardaz and Rah Avard-e-Novin databases.

When the accuracy and validity of the collected data was confirmed, it was introduced to Excel program and then the obtained variables from this program were introduced to Eviews 7 and Stata 11 programs for analysis and estimation of econometrics models purposes. The statistical population of this study consisted of all companies listed in TSE from 2003 to 2010. Statistical sample was selected through systematic deletion method where the condition of sample selection was as follows:

1- For comparison purposes, all financial years of the selected companies were ending to Mars, 19.
2- The companies should not lay within bank, financial corporations and financial investing companies categories.
3- The required information of the companies should be accessible.

The statistical sample was selected based on the above mentioned measures, which consisted of 283 companies.

STUDY METHODOLOGY AND DATA ANALYSIS

This study is a descriptive-correlation study in nature and an application study in purpose. The employed statistical model is multivariable regression. Combined data was used to analyze data and to estimate models. This method combines time series and cross sectional data. The data are used in the cases where problems could not be analyzed merely by time series and cross sectional methods or when a small amount of data is available. The combined data approach includes generally three components: a) constrained pattern, b) fixed effects and c) random effects. In this method, to have a selection between constrained pattern and fixed effects, Chow test or F-test is used. If the fixed effects method is selected again Hausman test will be conducted to have a selection between fixed effects and random effects methods. Eventually study hypotheses are examined by t test, z statistics, F statistics (Fischer), Limier F statistics, Hausman statistics and Mishkin test.

MODELS FOR RESEARCH HYPOTHESES EXAMINATION

To examine hypotheses, four regression models were used. The following model is estimated to evaluate the influence of bad news on the persistence of accruals:

$$EARN_{it+1} = \alpha_{\circ} + \alpha_1 BAD_{it} + \alpha_2 CFO_{it} + \alpha_3 BAD_{it} * CFO_{it} + \alpha_4 ACC_{it} + \alpha_5 BAD_{it} * ACC_{it} + \in_{it}$$

BAD: is a two-valued variable. Its value is one in the case of negative return and is null in other cases.
CFO : Operating cash flow
ACC: accruals
EARN: Net profit
ε_{it}: Error component

Two recent variables have been regulated using the market value of company's stocks at the beginning of the period. Based on the first hypothesis, the coefficient of $BAD_{it} * ACC_{it}$ variable is expected a significant and negative value.

To examine the second hypothesis i.e. the existence of a relationship between good news and the persistence of accruals the following regression model is evaluated:

$$EARN_{it+1} = \alpha_{\circ} + \alpha_1 GOOD_{it} + \alpha_2 CFO_{it} + \alpha_3 GOOD_{it} * CFO_{it} + \alpha_4 ACC_{it} + \alpha_5 GOOD_{it} * ACC_{it} + \in_{it}$$

GOOD: is a two-valued variable. Its value is one in the case of positive return and is null in other cases. Other variables have been defined before. Based on the second hypothesis of the research the coefficient of $GOOD_{it} * ACC_{it}$ is expected a negative and significant value.

To evaluate the relationship between bad news and investors' understandings of the persistence of accruals, i.e. the 3rd hypothesis, the following simultaneous equation system is evaluated and then Mishkin test (1983) is conducted based on the evaluated model. In the following system, the first equation is prediction equation and the second one is valuation equation.

$$\begin{cases} EARN_{it+1} = \alpha_{\circ} + \alpha_1 BAD_{it} + \alpha_2 CFO_{it} + \alpha_3 BAD_{it} * CFO_{it} + \alpha_4 ACC_{it} + \alpha_5 BAD_{it} * ACC_{it} + \varepsilon_{t+1} \\ \text{Re}\, t_{t+1} = \beta(EARN_{it+1} - \alpha^*_0 - \alpha^*_1 BAD_{it} - \alpha^*_2 CFO_{it} - \alpha^*_3 BAD_{it} * CFO_{it} - \alpha^*_4 Acc_{it} - \alpha^*_5 BAD_{it} * ACC_{it}) + \in_{i+1} \end{cases}$$

RET: Stock Return of Company

Other variables have been defined before. Based on the 3rd hypothesis the difference of $BAD_{it} * ACC_{it}$ variable coefficient between prediction and valuation equations is expected a significant value

To evaluate the relationship between good news and the investors' understanding of the persistence of accruals i.e. the 4th hypothesis the following simultaneous equation system is evaluated and the Mishkin test (1983) is conducted based on the evaluated model:

$$\begin{cases} EARN_{it+1} = \alpha_{\circ} + \alpha_1 GOOD_{it} + \alpha_2 CFO_{it} + \alpha_3 GOOD_{it} * CFO_{it} + \alpha_4 ACC_{it} + \alpha_5 GOOD_{it} * ACC_{it} + \varepsilon_{t+1} \\ \text{Re}\, t_{t+1} = \beta(EARN_{it+1} - \alpha^*_0 - \alpha^*_1 GOOD_{it} - \alpha^*_2 CFO_{it} - \alpha^*_3 GOOD_{it} * CFO_{it} - \alpha^*_4 Acc_{it} - \alpha^*_5 GOOD_{it} * ACC_{it}) + \in_{t+1} \end{cases}$$

Based on the 4th hypothesis of the research, the difference of $Good_{it} * BAD_{it}$ variable coefficient between prediction and valuation equations is expected a significant value

RESEARCH FINDINGS

The descriptive statistics of the variables being tested is presented in Table 1. In this table, the information related to the mean, maximum, and minimum values of each variable are included.

Table 1: descriptive statistics of the variables

Variables	*Mean*	*Median*	*Maximum*	*Minimum*	*Standard Deviation*
RET	0/27	0/08	4/70	-/79	**0/70**
EARN	0/16	0/16	2/02	-1/99	**0/24**
CFO	0/10	0/10	1/67	-2/00	**0/30**
ACC	0/06	0/04	2/37	-1/96	**0/34**

Definition of the variables:
RET: dividend yield
EARN: the profit adjusted to stock market at the beginning of the period CFO: cash flow adjusted to stock market value at the beginning of the period
ACC: accruals adjusted to stock market value at the beginning of the period
Yield dispersion (standard deviation), net profit, operating cash flow, and accruals are 0.70, 0.24, 0.30, and 0.34, respectively.

To check for the existence and direction of linear correlation between explanatory and dependent variables, their contingency coefficients are provided in Table 2:

Table 2: Pearson's correlation coefficients

Variables	RET	EARN	CFO	ACC
RET	1			
EARN	0/33*** (0/00)	1		
CFO	0/07*** (0/01)	0/21*** (0/00)	1	
ACC	0/17*** (0/00)	0/51*** (0/00)	-0/74*** (0/00)	1

*** The significance at the level of 1%

The results show that there is a significant correlation between dividend yield and the variables of net profit (0.33), operating cash flow (0.07), and accruals (0.17), at the level of 1%. The correlation coefficient between net profit with the variables of operating cash flow (0.21) and accruals (0.51) is also significant at the level of 1%. Moreover, there is a significant correlation between operating cash flow and accruals (-0.74).

RESULTS OF HYPOTHESES TESTING

In this part, the results from testing of research hypotheses of the study are provided.

THE RESULTS OF THE FIRST HYPOTHESIS TESTING

In order to test the first hypothesis of the study, Model (1) was estimated using mixed data method and its results are provided in Table 3-4. The significance of Limier's statistic (2.53) and Hausman's statistic (13.25) at the level of 5% demonstrates that Model 1 should be estimated using fixed effects model.

Table 3: the results from estimation of Model(1)

Variables	Coefficient	Student's t-statistic	Significance
y-intercept	0/09***	8/15	0/00
BAD	-0/04***	-2/99	0/00
CFO	0/47***	12/67	0/00
BAD*CFO	0/37***	5/72	0/00
ACC	0/32***	9/33	0/00
BAD*ACC	0/43***	7/51	0/00
Fisher's statistic (significance)	(0/00) 46/03***		
Determination coefficient	27/08%		
Limier's F statistic (significance)	(0/02) 2/53**		
Hausman's H statistic (significance)	(0/02)13/25**		

** and *** are, in turn, significance at the levels of 1% and 5%.

The results from estimation of Model 1, using fixed effects model, show that the y-intercept (0.09), coefficient of BAD two-valued variable (-0.04) and coefficient of operating cash flow variables (0.47), product of BAD two-valued variable and operating cash flow (0.37), accruals (0.32), and product of BAD two-valued variable and accruals (0.43) are all significant at the level of 1%. The significance of Fisher's statistic (46.03) indicates overall significance of the estimated model. The determination coefficient also shows that the independent variables of Model 1 explain about 28% of changes in the dependent variable. It is predicted in the first hypothesis that bad news (firm's negative stock return) results in stability reduction of accruals. The findings show that the coefficient of variable of the product of BAD two-valued variable and accruals is positive and significant. This indicates that bad news has increased the stability of accruals, which means the first hypothesis of the research is rejected.

THE RESULTS OF SECOND HYPOTHESIS TESTING

In order to test the second hypothesis of the study, Model (2) was estimated using mixed data method and the results are provided in Chart 4.

Table 4: the results from the estimation of Model (2)

Variables	Coefficient	Student's t-statistic	Significance
y-intercept	0/05***	4/50	0/00
GOOD	0/04***	2/95	0/00
CFO	0/84***	15/65	0/00
GOOD*CFO	-0/37***	-5/67	0/00
ACC	0/75***	16/64	0/00
GOOD*ACC	-0/43***	-7/57	0/00
Fisher's statistic (significance)	(0/00) 46/17***		
Determination coefficient	27/86%		
Limier's F statistic (significance)	(0/02) 2/53**		
Hausman's H statistic (significance)	(0/06) 10/54 *		

*, **, and *** are, in turn,the significance at 10%, 5%, and 1% levels.

The results from estimation of Model (2), using fixed effects model, show that the y-intercept (0.05), coefficient of GOOD two-valued variable (0.04) and coefficient of operating cash flow variable (0.84), product of GOOD two-valued variable and operating cash flow (-0.37), accruals (0.75), and product of GOOD two-valued variable and accruals (-0.43) are all significant at the level of 1%. The significance of the Fisher's statistic (46.17) implies the overall significance of the estimated model. The determination coefficient also shows that the independent variables of Model (2) explain some 28% of dependent variable changes.

It is predicted in the second hypothesis of the study that good news (firm's positive stock return) results in stability reduction of the accruals. The provided results show that the coefficient of the variable of the product of GOOD two-valued variable and accruals is negative and significant. This demonstrates that good news has reduced stability of the accruals, which means the second hypothesis is not rejected.

THE RESULTS OF THE THIRD HYPOTHESIS

In order to test the third hypothesis of the study, simultaneous equations system (3) was estimated using mixed data method and its results were used to run Mishkin test (1983). The findings are presented in Table 5. The result from estimation of the prediction equation shows that the values of y-intercept (0.08), the coefficient of BAD two-valued variable (-0.05) and the coefficient of operating cash flow variables (0.46), product of BAD two-valued coefficient and operating cash flow (0.54), accruals (0.31), and product of BAD two-valued variable and accruals (0.62) are all significant at the level of 1%. In the prediction equation, independent variables explain about 29% of changes in dependent variable (future net profit).

Table 5: the results from estimation of simultaneous equations system (3)

Variables	Coefficient	Zstatistic	Significance	Determination coefficient
A:Prediction equation				
y-intercept	0/08***	7/65	0/00	29/02%
BAD	-0/05***	-3/22	0/00	
CFO	0/46***	12/12	0/00	
BAD*CFO	0/54***	8/00	0/00	
ACC	0/31***	9/10	0/00	
BAD*ACC	0/62 ***	10/24	0/00	
B:Valuation equation				
$EARN_{t+1}$	1/00***	12/09	0/00	14/76%
y-intercept	0/03	0/92	0/36	
BAD	-0/23***	-4/92	0/00	
CFO	-0/48***	-3/51	0/00	
BAD*CFO	1/32***	6/29	0/00	
ACC	-0/24**	-2/23	0/03	
BAD*ACC	1/13***	6/14	0/00	
C.Mishkin's test (1983)				
Third hypothesis: $\alpha_5^{\sim} = \alpha_5$	6/84*** (%1)			

** and *** are, in turn, significance at the levels of 5% and 1%

The result from estimation of valuation equation shows that the future profits coefficient (1.00), BAD two-valued variable coefficient (-0.23), coefficient of operating cash flow variables (-0.48), product of BAD two-valued variable and operating cash flow (1.32), and coefficient of the product of BAD two-valued variable and accruals (1.13) are significant at the level of 1%, and the coefficient of accruals (-0.24) is significant at the level of 5%. In the valuation equation, independent variables explain about 15% of changes in dependent variable (future stock return).

The results from Mishkin's test (1983) (6.84) show that the coefficient of the product of BAD two-valued variable and accruals, in prediction equation

(0.62) and in valuation equation (1.13), are significantly different. This means that in the presence of bad news, market cannot estimate the stability of accruals correctly. Therefore, this hypothesis is confirmed at the confidence level of 99%. Additionally, with respect to the results obtained from testing of this hypothesis, the production of the coefficient of BAD two-valued variable and that of accruals in the prediction equation is lesser than in valuation equation. This implies that in the presence of bad news the investors do not have clear understanding of stability level of accruals, and the stability degree conceived by them is significantly higher than actual stability level of these accruals. This would lead to occurrence of accruals price distortion phenomenon.

THE RESULTS OF THE FORTH HYPOTHESIS

For the purpose of study's forth hypothesis testing, the simultaneous equations system (4) was estimated using mixed data method. Then, Mishkin's test (1983) was run, utilizing the estimation results, and the outputs are presented in Table 6.

Table 6: The results from simultaneous equations estimation (4)

Variables	Coefficient	Zstatistic	Significance	Determination coefficient
A:Prediction equation				
y-intercept	0/04***	3/44	0/00	
GOOD	0/05***	3/18	0/00	
CFO	1/00***	17/78	0/00	29/08%
GOOD*CFO	-0/54***	-7/95	0/00	
ACC	0/93***	18/29	0/00	
GOOD*ACC	-0/63 ***	-10/27	0/00	
B:Valuation equation				
$EARN_{t+1}$	1/00***	12/07	0/00	
y-intercept	-0/20	-5/57	0/00	
GOOD	0/23***	4/94	0/00	
CFO	0/85***	5/09	0/00	
GOOD*CFO	-1/33***	-6/32	0/00	
ACC	0/89**	5/91	0/00	
GOOD*ACC	-1/13***	-6/12	0/00	
C.Mishkin's test (1983) fourth hypothesis: $\alpha_3^1 = \alpha_3$	6/71*** (%1)			

** and *** are, in urn, significance at the levels of 5% and 1%.

The result from prediction equation shows that the y-intercept (0.04), GOOD two-valued coefficient (0.5) and coefficient of operating cash flow variables (1.00), production of GOOD two-valued variable and operating cash flow (-0.54), accruals (0.93), and production of GOOD two-valued variable and accruals (-0.63) are all significant at 1% level. In the prediction equation, independent variables explain about 29% of changes in the dependent variable (future net profit).

The output of valuation equation estimation shows that the coefficient of future profits (1.00), y-intercept (-0.20), coefficient of GOOD two-valued variable (0.23), coefficient of operating cash flow variables (0.85), production of GOOD two-valued variable and operating cash flow (-1.33), accruals (0.89), and coefficient of the production of GOOD two-valued variable and accruals (-1.13) are all significant at 1% level. In the valuation equation, independent variables explain about 15% of changes in the dependent variable (future stock return).

The results of Mishkin's test (1983) (6.71) demonstrate that the coefficient of the production of the GOOD two-valued variable and accruals in prediction equation (-0.63) and valuation equation(-1.13) are significantly different. This means that in the presence of bad news, market cannot estimate the stability degree of accruals correctly. Consequently, this hypothesis is confirmed at the confidence level of 99%. Moreover, the obtained results indicate that the coefficient of the production of GOOD two-valued variable and accruals in the prediction equation is

bigger than that in valuation equation, implying that the stability of accruals, estimated by the investors in the presence of good news, is significantly smaller than actual stability level. This leads to accruals pricing.

CONCLUSION

This study investigated the influence of different published news and information on the investors' understandings of the persistence of accruals. The relationship between the type of published news and information related to stock return and the persistence of accruals as well as the influence of the news on the investors' understandings of the persistence of accruals were evaluated through the main hypotheses. Generally, the results of this study which was about the published news about stock return revealed that in TSE the type of the mentioned variable affects the ability of correct prediction of profit components especially accruals. The findings of this study generally indicated that stockholders do not analyze received information correctly, do not react correctly to them and make false decisions depending on conditions. The following items could be mentioned as reasons:

- Weak efficiency of capital market and great effects of external factors on investors like psychological and behavioral factors as well as other factors leading to the obtained results.
- The data which was used in this study belong to special time and location with special features led to the results.
- It could also be argued that during the considered time scope, special political-social conditions were governing TSE which were led to the obtained results.

SUGGESTIONS

By conducting the research in which information resources related to the subject of study were studied and by taking into account the results of the study, the following suggestions are offered:

- Since Mishkin test neglects the variables of company size (small/large), industry type (industrial/non industrial) profitability (profit/loss) and dividened payment (paying/not paying dividened of current period), it is suggested to future researchers to evaluate the effects of these variables on the false-pricing of accruals and operational cash flow.
- As we know, the relationship between the impacts of the type of published information and the investors' understandings of the persistence of accruals was evaluated. To this end, it is suggested to future researchers to evaluate the relationship between the impact of published news on the cash component of profit as well as the components of accruals (discretionary and non discretionary)
- This research investigated the relationship between published news and information about stock return and the false-pricing of accruals. With respect to the place and importance of the quality of profit components especially accruals in the decisions of capital market it is suggested to conduct experimental studies about other factors affecting false-pricing of accruals and the improvement of accruals in TSE.
- Since the presence of inexperienced investors in capital market is probable, investors are suggested to show more accurate reactions to published news and information and use the assistance of financial analyzers in making investing decisions.

Footnotes

[1]Www.SID.ir

[2]www.RDIS.ir

REFERENCES

1. Basu S., (1997). The conservatism principle and the Asymmetric Timelines of Earnings. *Journal of Accounting Reviw*; 70 (April): 193-225.

2. Chan, K.; Chan, L.; Jegadeesh, N.; Lakonishok, J., (2006). Earnings Quality and Stock Returns. *Journal of Business*. Vol. 79. pp.1041-1082.

3. Collins, D. and Haribar, P, (2000). Earnings based and accrual-based Market anomalies: one effect or two? *Journal of Accounting and Economics*, October, 110-122.

4. De Bondt, Werner F. M. , Richard H.Thaler, (1985). Does the Stock market overreact? *Journal of Finance*, 40. pp.793-808.

5. Fairfield P, S. Whisenant, T. Yohn, (2003). Accrued earnings and growth: implications for future profit ability and market mispricing. *The Accounting Review*, pp. 353-371.

6. Fama, F.E., (1991). Market efficiency, Long–Terms returns, and behavioral Finance. *Journal of Financial Economics*. Vol. 49. pp.283-306.

7. Ghalibaf-e-Asl, H., & Naderi, M, 2008. An investigation into over-reaction of Tehran's stock market investors to the information and news during conditions of recession and prosperity. Financial Research, pp.97-112.

8. Hirshleifer, D., Kewei H. and Seiw Hong Teoh, (2009). Accruals, cash flows, and aggregate stock returns. *Journal of Financial Economics*, March (2009), 91(3). pp.389-406.

9. Mahmoodi, V., Shirkavand, S., & Salari, M, (2013). An investigation into the reaction of investors to changes in dividend yield of the firms listed in

stock market. *Journal of Financial and Accounting Management Perspective*. Vol.3,p.115-130.
10. Mehrara, M., & Abdoli, Gh, (2008). The role of bad and good news in fluctuations of stock return in Iran. *Iranian Economic Research Quarterly*, Vol.26, pp.25-40. .
11. Mehrani, S. & NOnahal-Nahr, A, (2009). An investigation into the possibility of using reverse trading strategy in Tehran Stock Market. *Research of Accounting and Auditing*, Vol.50, pp.25-46.
12. Sloan, R, (1996). Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review*, Vol. 71, pp. 289-315.
13. Thomas, J.K., & Zhang, H., (2002). Inventory changes and future returns. *Review of Accounting Studies*, 7: 163-187.
14. Tversky , A., and D. kahneman, (1982). Representativenss – Belief in the Law of small Numbers, in judgment under uncertainty: Heuristicsand Biases. Kahneman, D.,P. Slovic and A.Tversky (eds). Cambridge: Cambridge university press.
15. Xie, H, (2001). The mispricing of abnormal accruals. *The Accounting Review*, Vol.76, pp.357-373.