

Asymmetric Information and the Role of Accounting in Emerging Markets Evidences from TSE

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Abstract: This study examines the value relevance (information content) of cash flow and accounting figures in situations where the information is asymmetrical and Compare the relative information content of them to clarify the role of accounting figures in investment decision making and mitigating the agency problems (specifically resulting from the existence of information asymmetry in the emerging markets). Based on testing a sample of 76 firms from Tehran Stock Exchange (TSE) during 2005 to 2011, the results support the priority of accounting figures over cash flows in the market (TSE). On the other hand, when the information is asymmetrical, the accounting figures are still more relevant than the cash flows and have more relative information content. At the same time, in small firms, the value relevance of the accounting figures compared to cash flows is more; while in large firms, the relative content of accounting figures and cash flow figures aren't significantly different.

Keywords: Accounting figures, cash flow figures, information asymmetry, information content, value relevance

INTRODUCTION

During the last 30 years, the economists have brought forth many cases in which there were conflicts of interests between different groups and how the firms have dealt with them. These conflicts are a result of the agency problem and one of the reasons is the information asymmetry (Jensen and Meckling, 1976).

Financial accounting and reporting can be considered as a tool with which the agency issues and information asymmetries can be dealt with and the inner organization information can be efficiently changed into outer organization information (Scott, 2003).

From an accounting viewpoint, cash flows are based on figures such as cash increased value and accounting is based on figures such as economical value added, which indicates two important strategies in order to evaluate the operational efficiency. Cash increased value evaluates the operational efficiency based on the working cash flow, while economical increased value evaluates the operational efficiency based on accounting profits. Therefore, the increased cash value is based on the cash flow figures, whereas the increased economic value tries to benefit the information content of the accounting figures. Analyzing the information content of the accounting figures against the cash flow figures becomes more significant when there is information asymmetry in the firms (Rapp, 2010).

Therefore, the main question of the research is that in the presence of information asymmetries, which of the cash flow and accounting figures has more information content. Thus, determining the value relevance of the accounting and cash flow figures in the presence of information asymmetry and using them in evaluating the performance, is the main object of this research.

On the other hand, information asymmetries causes a reduction in the information content of the operation criteria based on the accounting figures and cash flow figures and people who use the financial statements in order to make a decision, use the financial information with doubt. So, in situations where the investors and participants of the markets crucially need the information content of the figures in financial statements, it is necessary to examine the information content of the accounting figures and cash flow figures and the role of them in mitigating the information asymmetry and agency problems, specifically in emerging markets.

In Iran, however, the findings in this area of research confirm the value relevance of accounting information. However, there is no study similar to the present research. This study, unlike previous researches, focuses on the practical question whether the information of accounting figures compared to the cash flow figures in the presence of information asymmetries (as a characteristic of incomplete markets) is relevant or not.

This study will contribute to accounting literature through analyzing the information content of accounting information and its ability as an information system to mitigating the agency problems and will help the people who use accounting and financial figures, especially the investors, to evaluate the performance of a firm in the existence of information asymmetry. Such a research can be done in emerging markets similar to TSE, clearing the role of accounting and financial reporting in capital markets and providing users by their needs, concerning their special environment. It is obvious that, because of the differences between environments and other characteristics, the markets such as TSE, needs their special scientific theories and the results of the researches based on developed countries' capital markets, don't meet their needs.

LITERATURE REVIEW

Making good decisions for investment requires good information. Therefore, various studies have been performed concerning information, especially accounting information. For example Hendriksen and Van Breda (1992), Christensen and Demsky (2003) and Scott (2003) consider using data and acquiring information as one of the required criteria for making a decision. In Michael Spence, George Ekrelov and Joseph Stilitz (1970) developed a theory in the field of economics which was known as the "information asymmetry". Based on this theory, in the same market, some people are officially identified as having more information compared to others and as a result, they can use their special information to beat the market and to earn an abnormal return.

Rappaport's shareholder value approach claims that the decisions made by the management affects the wealth of the investors and this can influence the efficiency of the firm's shares (Rappaport, 1981, 1998). Accepting this approach means that the only criteria to determine the efficiency for accounting purposes of the management is the overall profit of the investors which is gained by investing in a firm's shares. However, using the overall profit of the shareholders as an efficiency criterion has significant barriers from an optimal stimulus planning approach; since an important part of the changes is based on the outside events which is beyond the control of the management. Even though Rappaport's shareholder value approach is widely accepted today, it is always an issue that there are also appropriate inner efficiency criteria to evaluate the decisions of the management and using these criteria in management accounting.

From an agency point of view, performance criteria are considered based on the following items (Kaplan and Atkinson, 1998):

- Variables that are in line with the firm's objectives (the value of the shares)
- Variables whose criteria is resulted by the appropriate decisions that the management makes

Especially there should be a direct relationship between the management's decisions and the efficiency variables. In many firms, there are especial efficiency criteria along with the general objectives through which one can find out the variables based on the management's decisions such as operational criteria of a firm; in these firms there is a strong correlation between the inner efficiency criteria and the efficiency of the firm's stock market.

In fact, as information asymmetries increases, the motives for being opportunistic and the management of the firm's profits increase (Gunther *et al.*, 2009). Therefore, the optional alternatives in the element of profit based on the accounting figures has greater value for the management and the value of the information of the promised figures will be less significant for shareholders. In other words it is predicted that with an increase in information asymmetries, the relevance value of the accounting figures in explaining the efficiency of the firm's stock market will be less, compared to the cash flow figures. Among the relevant research, the following can be mentioned:

Bowen *et al.* (1987) examined the incremental information content of the promised and cash figures in their research. The result of their research was that the information related to the cash flow had more incremental information content compared with profit. Also the information related to cash flows had more information content in comparison with the joint information of profit and working capital resulted from the operation and the information concerning the promised flows has more incremental information that that of the cash flows.

Ashiq (1994) examined the incremental information content of profit, working capital resulted from the operation and cash flows. In his study, he confirmed the incremental information content of the profit on working capital resulted from the operation and cash flows. Also the incremental information content of the working capital resulted from the operation on profit and cash flows were accepted. However, concerning the incremental information content of cash obtained in the operation on other factors, two conditions arose: in situations where the firms under study had small changes in the cash

resulted from the operation, the incremental information content was observed; while, in situations where the firms had big (significant) changes in the amount of cash resulted from the operation, incremental information content was not observed.

In addition to confirming the existence of incremental information content in cash and promised flows, Subramanyam (1996) provided evidence based on which it proved that in the US investment market, optional promised items have more incremental information content compared to the amounts of cash obtained from the operations which has incremental information content.

Chou *et al.* (2004) analyzed the ability of the variable of size in explaining the efficiency in New York stock market and NASDAQ. The empirical results showed that generally speaking, the predicting ability had relatively increased during the periods between 1982 and 2001 and the period 1990 and 2001.

Rapp (2010) examined which information, accounting figures or cash flow figures, had relative information content in explaining the efficiency of the firm's shareholders. In addition, he tested the question in information asymmetries. Using the regression method, he examined the constant effects of a 5000 sample among German firms. The analysis showed that in general, both operational cash flows and profit had a significant relationship with the efficiency of the shareholders. However, as the information asymmetries increases, profit had a less significant relationship with the efficiency of the firm's stock market and operational cash flows had more ability in explaining the total efficiency of the shareholders and in this respect, operational cash flows overcame profit. The results showed that the information content of the accounting figures were only relevant when there was a decrease in information asymmetries.

Choi *et al.* (2011) examined the relevance of the promised items and cash flows in the Asian financial crisis. Their study was trying to find whether the reported value of the information and its elements were affected by the financial crisis during 1997 and 1998. The results showed that it had a negative significant effect on the relevance of accounting figures and cash flow figures. Researchers consider the information asymmetries of the period as one of the main reason of this decrease during the financial crisis.

Haghighatm and Bakhtiari (2011) examined the incremental information content of the promised items compared to operational cash flows unlike other studies and the results indicated that in a general approach of the promised items, the operational cash flow does not decrease the relevance of unusual promised items in the future efficiency of the shares. On the other hand, their

research indicated the increased information content of the operational cash flows and the promised items and the results showed that operational cash flows and unusual items do not have incremental information content.

In the next section, the hypothesis will developed based on theoretical framework.

HYPOTHESES DEVELOPMENT

Although all the efficiency criteria have general objectives, there is a significant asymmetry based on the structure of these criteria. For instance, the two following reasons can be mentioned:

- Cash flow is based on figures such as Cash Value Added (CAV) which was developed by Boston Consulting Group.
- Accounting is based on figures such as Economic Value Added (EVA) which was proposed by Stern Stewart.

From a general management perspective, both Efficiency Variables (CVA and EVA) are based on a general logic: both of them are based on some efficiency variables which are compared with the costs resulted from the required resources of making efficiency. Still, from an accounting perspective, CVA and EVA indicate two important perspectives in evaluating the functional efficiency: CVA evaluates the functional efficiency based on accounting profits while EVA evaluates the functional efficiency based on the cash flow figures and EVA tries to benefit from the information content of the accounting figures. Still there is a practical question whether the incremental information content in the promised profit element improves the evaluation of the internal efficiency or no. in order to answer this question, it is necessary to evaluate the correlation of the cash flows and profits with the overall efficiency of the shareholders. Based on the literature, there are two viewpoints in this area of research: the first, based on which, cash flow figures can be an appropriate criterion for predicting the efficiency of the stock market by providing investors needs about the information of the firm's cash flows. In fact, this approach hypothesizes that there is a positive correlation between operational cash flows and the efficiency of the stock market. The other approach states that cash flow figures do not show the real efficiency of the firm and it hypothesizes that accounting figures provide incremental information compares to cash flow figures (Dichow, 1994). In fact the main idea of this approach is that the accounting figures are more informative than cash flow figures

(Ball and Brown, 1968; Dichow, 1994; Rapp, 2010). So, the first hypothesis is mentioned as follow:

H1: Compared to cash flow figures, accounting figures can better explain the efficiency of the stock market of a firm.

On the other hand the bigger a firm is, the more it attracts investors. It means such firms will have more investors compared to smaller firms. The government or governmental institutions are also more attracted to such firms. The reason can be explained by tax objectives. That is, the bigger a firm is, the more significant it is to pay tax. These result in a reduction in information asymmetries. As the number of the investors and people who use the financial statement of such firms is more, it makes investors to look for more information and therefore the information advantage is not limited to a few privileged ones within the organization (Myers and Majluf, 1984; Scott, 2003). This results in a difference of the relevance value of the accounting figures and cash flow figures in large firms, compared to those figures in small firms. Therefore, information asymmetries can affect this relationship (Rapp, 2010; Choi *et al.*, 2011). On the other hand, Fama and Jensen (1983) believe that there are less information asymmetries in large firms, since these firms are more willing to provide shareholders and foreign investors with information and this makes them put a priority on the rights of the shareholders rather than their debts. In other words they prefer to use more investment rather than debt in the structure of their capital. The second hypothesis is mentioned as follow:

H2: Firm size affects the relative information content of the accounting figures and cash flows.

Although theoretically there are logical reasons for the information content of cash flow and accounting figures, in practice, there are some barriers for which it cannot easily be tested empirically. One of the reasons is company size and the most important barrier is information asymmetries (Sloan, 1996). Therefore it is hypothesized that the more information asymmetries increase, still the accounting figures have a more relevant content compared to cash flow figures (Moradzadeh-Fard, 2011). The last hypothesis is mentioned as follow:

H3: In firms with information asymmetries, the accounting figures can explain the efficiency of the firm's stock market better than the cash flow figures.

MATERIALS AND METHODS

The statistical society of the research was chosen among the manufacturing firms accepted in Tehran Stock Exchange during 2005 to 2011. The samples were chosen according to the following criterion:

- The fiscal year end of the firms was 29th of Esfand and there is no change in the fiscal year.
- They are not among financial investment and broker firms.

Considering the abovementioned limitations, 76 firms were selected and examined. We use panel data analysis using EVIEWS 6 and STATA 11. The main model of the research is:

$$R_{it} = \alpha + \beta_1 EAR_{it} + \beta_2 CF_{it} + r_1 K_{1it} + \dots + r_n K_{nit} + \varepsilon_{i,t}$$

This model is based on the relevance model which studies the informativeness of the profit figures, with the exception that in addition to EAR, the CF (Cash Flow) was also used as an informative variable. Also, $r_1 K_{1it} + \dots + r_n K_{nit}$, Indicates the special controlling factors of time and the firm. This model has been employed in some studies (Wilson, 1986, 1987; Bernard and Stober, 1989; Dichow, 1994; Subramanyam, 1996).

According to the above model and excluding the controlling factors, the model is as follows:

$$R_{it} = \alpha + \beta_1 EAR_{it} + \beta_2 CF_{it} + \varepsilon_{i,t} \quad (1)$$

And the extended model is:

$$R_{it} = \alpha + \beta_1 EAR_{it} + \beta_2 CF_{it} + r_1 BETA_{it} + r_2 SIZE_{it} + r_3 MTB_{it} + r_4 ETP_{it} + r_5 LEV_{it} + r_6 DOMINATED_{it} + \varepsilon_{i,t} \quad (2)$$

The definitions of variables are presented in Table 1.

RESULTS AND DISCUSSION

Descriptive statistics of the variables are presented in Table 2. As it can be seen, since compound data has used, in each of the models, the *Pool-ability* test is also performed. In this study, this test is performed separately for validating the constant effects of time and section. If the significance level is less than 0.05, the constant effects of time and section are valid or the panel model is approved for time and sections. After approving the use of panel model, we can determine whether the effect is random or constant. In so doing, the *Hausman test* is employed and if $p < 0.05$, the model is constant, otherwise, it is random. Statistical tests

Table 1: The variables of the study and the calculation method

Type of the variable	Variable	Definition
Dependent var.	The performance of the stock (R)	The annual return of the shares (4 months after the financial year), the changes between the price of the shares at the beginning and end of the period plus other revenues resulting from buying shares for example priority right, awarder shares and the cash profit of the shares divided by the price of the shares at the beginning of each period (Arab Mazaryazdi <i>et al.</i> , 2007).
Independent var.	Accounting figures (EAR)	The profit before interest and tax divided by the total assets (Arab Mazaryazdi <i>et al.</i> , 2007).
Independent var.	Cash Flow figures (CFO)	Cash flow operations divided by total assets (Haghighatm and Bakhtiyari, 2011).
Controlling var.	BETA	The regression of the incremental monthly profit of the shares and incremental profit of the market (Rapp, 2010).
Controlling and scaling var.	Firm size (SIZE)	Total sales logarithm (Rapp, 2010)
Controlling var.	(MTB)	Market value divided by the stated value of the shareholders revenue (Rapp, 2010)
Controlling var.	(ETP)	Profit before subtracting the interest and tax divided by market value (Rapp, 2010)
Controlling var.	Financial leverage (LEV)	Total debts divided by total assets (Rapp, 2010)
Controlling dummy var.	Floating shares (DOMINATED)	If the floating shares are less than 50% it takes a value of zero, otherwise it takes the value of 1 (Rapp, 2010).
Scaling var.	Information asymmetries (SPREAD)	The difference range of the suggested buying and selling (Venkatesh and Chiang, 1986).

Table 2: Descriptive statistics of the research variables

Variable	Mean	S.D.	Min.	Max.	No.
The efficiency of the stock market (R)	0.2152	0.12302	-0.01	0.410	532
Accounting figures (EAR)	0.1932	0.16787	-0.25	0.700	532
Cash Flow figures (CFO)	0.1420	0.17775	-0.30	0.650	532
Company size (SIZE)	5.6206	0.65203	3.98	5.990	532
β	0.4647	1.43231	-3.93	2.540	532
(MTB)	2.5340	3.85999	-4.77	4.050	532
(ETP)	0.4409	0.24890	-1.20	11.08	532
Financial axis (LEV)	0.6755	0.23634	0.17	0.970	532
Floating shares (DOMINATED)	0.2344	0.42396	0.00	1	532

Table 3: Statistical results for the two models

Model	Variables	Coef.	Sig.	t-statistic	Model F (sig.)	R ²	Poolability over time F (sig.)	Poolability over firms χ^2 (sig.)	Hausman χ^2 (sig.)	Hetero skedasticity χ^2 (sig.)	Serial correlation F (sig.)
1	EAR	0.1747	0.0000	4.300	25.92 (0.00)	0.1037	2.420 (0.00)	301.0 (0.00)	15.4400 (0.0004)	2.03450 (0.0960)	0.56000 (0.3409)
	CF	0.1383	0.0000	3.760							
	CONS	0.1616	0.0000	17.74							
	EAR	0.1725	0.0000	4.170							
	CF	0.1378	0.0000	3.730							
	Beta	0.0027	0.0496	0.680							
2	SIZE	0.0588	0.0760	1.780	7.270 (0.00)	0.1162	2.980 (0.00)	552.27 (0.00)	20.3000 (0.0093)	2.00240 (0.0642)	1.68500 (0.1980)
	MTB	0.0000	0.0306	-1.030							
	ETP	-0.0066	0.4090	-0.830							
	LEV	-0.0114	0.8060	-0.250							
	DOM	0.0057	0.7050	-0.380							
	CONS	-15.797	0.4160	-0.810							

related to inhomogeneity of the variance and successive correlation was performed for the serial correlation test of the residuals. The higher the results of these two tests are from 0.05, the variables have less inhomogeneous variances and less successive correlation. Table 3, shows the results for two models.

Based on the statistical results, both of the regression models are significant (based on f statistics $0.0000 < 0.05$). The independent variables of both of the models (CF and EAR) are significant and among the controlling variables, the variables of MTB and Beta, in

Table 4: Wald test in order to determine the accounting and cash flow figures

Variable	Coefficient	R ²	Prob. χ^2	Wald statistic
EAR	0.2714	0.3399	0.0001	11.23565
CF	0.1807	0.2834		

the second model are significant. The results of the statistical tests considering the constant effects of time and the firm show that compound data (panel) can be used in both models to test the hypotheses. The results of the Hausman also indicate that the model corresponds to the constant effects. And finally, the

Table 5: Statistical results concerning firm's size

Model	Var.	Coef.	Sig.	t-stat	Model F (sig.)	R ²	Poolability over time F (sig.)	Poolability over firms χ^2 (sig.)	Hausman χ^2 (sig.)	Hetero skedasticity χ^2 (sig.)	Serial correlation F (sig.)
Small	EAR	0.3902	0.027	2.23							
	CF	0.0759	0.020	2.49							
	Beta	0.0007	0.956	0.06							
	MTB	0.0304	0.009	2.65	2.290	0.067	2.450	3.380	20.700	1.09810	2.00900
	ETP	-0.0199	0.627	-0.49	(0.00)		(0.00)	(0.00)	(0.000)	(0.2222)	(0.0885)
	LEV	0.0894	0.544	0.61							
Large	DOM	0.0242	0.677	0.42							
	CONS	0.0222	0.852	0.19							
	EAR	0.2548	0.000	4.31							
	CF	0.1317	0.012	2.54							
	Beta	0.0089	0.220	1.23							
	MTB	-0.0093	0.000	-5.28	7.760	0.197	3.200	3.606	22.5100	1.10900	2.56800
	ETP	-0.0154	0.030	-2.19	(0.00)		(0.00)	(0.00)	(0.0015)	(0.0935)	(0.0802)
	LEV	0.1067	0.078	1.77							
DOM	0.0050	0.807	0.24								
CONS	0.1052	0.015	2.46								

variables do not have variance in homogeneity and successive correlation.

Based on Table 4, as the significance level of both is less than 0.05, the information content of the two variables is not the same. Since the R-square coefficient of EAR is more than CF, therefore, EAR relatively contains more information content.

The statistical results of comparing the information content of the two variables, concerning firm size, are presented in Table 5, 6 and 7.

The results show that the regression model is significant for both groups (based on t-statistics, $0.0000 < 0.05$). The independent variables (EAR and CF) are also significant in both groups. Among the controlling variables in small firms, only the variable of MTB is significant. Whereas, in large firms, in addition to MTB, ETP is also significant. A comparison of the estimated coefficients show that there is a stronger relationship between the dependent and independent variables in large firms (0.1973) compared to that of the small firms (0.0676). The results of the statistical testing of the constant effects of time and the firm shows that that compound data (panel) can be used in both models to test the hypotheses. The results of the Hausman also indicate that the model corresponds to the constant effects. And finally, the variables do not have variance in homogeneity and successive correlation.

Comparing the information contents of two independent variables in small firms (Table 6), show that the significance level of both is less than 0.05. Therefore, the information content of the two variables is not the same.

Since the R-square coefficient of EAR is more than CF, EAR relatively contains more information content.

However, in large firms, as the significance level of *Wald-statistic* is more than 0.05, the information content of the two variables is the same. Therefore, the

Table 6: Relative content of accounting figures and cash flow figures based on Wald test for small firms

Variable	Coefficient	R ²	Prob. χ^2	Wald statistic
EAR	3.0222	0.4027	0.0044	24.52
CF	1.8610	0.3427		

Table 7: Relative content of accounting figures and cash flow figures based on Wald test for large firms

Variable	Coefficient	R ²	Prob. χ^2	Wald statistic
EAR	1.9588	0.5360	0.3684	1.99
CF	1.2379	0.5302		

information content of two independent variables are the same and, they relatively contain the same information content.

The statistical results of comparing the information content of the two variables, concerning firm's information asymmetry, are presented in Table 8, 9 and 10. The results show that the regression model is significant for both groups (based on f statistics, $0.0000 < 0.05$). The independent variables of both groups (EAR and CF) are significant (based on t-statistics). Among the controlling variables, in firms with low information asymmetry, none of the controlling variables is significant and in firms with high information asymmetry, only the controlling variable of MTB is significant.

Comparing of the two models reveal that, there is a stronger relationship between the dependent and independent variables in firms with high information asymmetries (0.1973) compared to that of the firms with low information asymmetries (0.0713). The results of the statistical testing of the constant effects of time and the firm shows that that compound data (panel) can be used in both models to test the hypotheses. The results of the Hausman also indicate that the model corresponds to the constant effects. And finally, the variables do not have variance in homogeneity and successive correlation.

Table 8: Statistical results concerning firms with low or high information asymmetry

Model	Var.	Coef.	Sig.	t-stat	Model F (sig.)	R ²	Poolability over time F (sig.)	Poolability over firms χ^2 (sig.)	Hausman χ^2 (sig.)	Heteroskedasticity χ^2 (sig.)	Serial correlation F (sig.)
Low	EAR	0.3035	0.000	3.78							
	CF	-0.0845	0.016	-2.81							
	MTB	-0.0048	0.083	-1.74							
	ETP	-0.0056	0.649	-0.46	2.6200	0.0713	2.29000	3.880	41.44	3.02140	2.98740
	LEV	-0.0266	0.671	-0.43	(0.012)		(0.0012)	(0.00)	(0.00)	(0.1002)	(0.0987)
	Beta	0.0000	0.996	0.00							
High	DOM	-0.0293	0.342	-0.95							
	CONS	0.2310	0.000	4.65							
	EAR	0.2328	0.000	4.09							
	CF	0.1234	0.016	2.43							
	MTB	-0.0104	0.002	-3.17							
	ETP	-0.0014	0.885	-0.14	7.130	0.1973	3.321	3.299	76.220	8.50140	1.02500
	LEV	0.0748	0.153	1.43	(0.00)		(0.00)	(0.00)	(0.008)	(0.1908)	(0.2912)
	Beta	-0.0026	0.545	-0.61							
DOM	0.0024	0.911	0.11								
CONS	0.1272	0.002	3.16								

Table 9: Wald test for firms with low information asymmetry

Variable	Coefficient	R ²	Prob. χ^2	Wald statistic
EAR	0.1588	0.2481	0.1420	7.12
CF	0.1135	0.2310		

Table 10: Wald test for firms with high information asymmetry

Variable	Coefficient	R ²	Prob. χ^2	Wald statistic
EAR	0.2823	0.2967	0.0000	24.12
CF	0.2117	0.2512		

Comparing the information contents of two independent variables in firms with low information asymmetry (Table 9), show that the significance level of *Wald-statistic* is more than 0.05. Therefore, the information content of the two variables is the same and they have the same relative information content.

The results of testing the information contents of two independent variables in firms with high information asymmetry (Table 10), show that the significance level of *Wald-statistic* is less than 0.05, the information content of the two variables is not the same.

Since the R-squared coefficient of the variable CF is lower than that of EAR, the variable of EAR, relatively has more information content.

CONCLUSION

In the present study, the relevance of accounting figures compared to cash flow figures with the existence of information asymmetry was examined. The results of the first hypothesis indicated the priority of accounting figures over cash flow figures, explaining the return of the firms. The results of the second hypothesis show that, size of firm has impact on the relative information content of two variables and, in small companies, the relative content of accounting figures is more compared to cash flow figures, whereas in large firms, there is no significant effect on the relative content of accounting figures and cash flow

figures. It can be said that, since, in large firms there are more major and institutional investors and these firms attract more attention among governmental organizations, it can be expected that the information of such firms are more clear, because the users and investors who use the financial statements of these companies, are far more than that of small companies and this makes investors more willing to demand information and therefore the information is not confined to the privileged few within the firm. Therefore, the relevance of the accounting figures and cash flow figures in smaller firms is more significant and testing this hypothesis revealed that accounting figures in small firms have more information content.

The results obtained from hypothesis three, indicate the priority of accounting figures over cash flow figures in explaining the return of firms with high information asymmetries. This can be due to the low quality of the information and the unclear information of the market and also the sole attention of the investors to key figures in financial reports. Therefore, it can be concluded that in an environment such as Iran capital market (TSE), accounting information are more valuable than cash flow figures and can help users to make better decisions and mitigate the information asymmetries.

Finally, it is recommended that, similar researches can be done in emerging markets similar to TSE, clearing the role of accounting and financial reporting in capital markets and providing users by their needs, concerning their special environment.

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