

A Study on the Relationship of Earnings and Cash Flows: Evidence of Finance Sector in Iran

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Abstract

The present study is investigating the quality of annual accounting earnings in banking firms that have been listed in Tehran Stock Exchange (TSE) and it evaluates the most important information of accounting that is earnings and cash flows. The study also intends to investigate the relationship between earnings and cash flows regarding their relationship with the expected return of stocks and the extent of informing in the analysis of the inevitable return of stocks. The analyses of data during 6 years revealed that the earnings in comparison to the cash flows are very important as they have positive effects on the stock. Moreover, in the case of the relations of earnings and earnings changes with the expected return of stocks and the relation of cash flows and cash flow changes with the expected return of stock, it was found that there is only a meaningful relationship between earning changes and the expected return of stock in banking groups. However, there is no meaningful relationship between earning and cash flows with the expected return of stock. The result was that the informational content test didn't support the value relation of earning and cash flows. Furthermore, the classifying of information through banking group indicated that the changes of earning was in the first rank and next were earning, the changes of cash flow and cash flows.

Keywords: Earnings; Cash flows; expected return; Value relevance; Banking risks

1. Introduction

It is obvious that there is an accounting and financial principle which can be considered as an appropriate approach though it is not absolutely right (Barzegar and Salehi, 2008). Nowadays, there are a lot of analyses about net earnings as the main and sole valid factor for the description of company functions and operations. On the basis of this simple approach, the company having increased net earning performs well and decreasing net earnings is an indicator of company malfunctioning. Totally, it is said that the company which has had greater net earnings could create more wealth for its stock holders comparing to those having little net earnings (Salehi, 2008). Also, according to this reasoning, those companies having positive net earning cause the value of the stocks to increase which contrasts to the companies with losses. Of course all of these theories might be wrong. In many of the analyses, adding amortization to the net earnings results in a figure which is called the cash flow of accounting or the cash flow derived from the operations. Yet, more important is that many people being aware of this consider the cash flow as net earnings. Banking firms like other Iranian stocks companies are bound to reporting and disclosing law of information that Iranian capital market commission has analyses it. Therefore, these companies like other active companies in the stock exchange market should publish their annual reports and financial bills and their cash circulation bill and its details in an efficient way. Following that, there was the wide financial information disclosure because of banking institutions' freedom (Salehi and Biglar, 2008). So, the practical question being proposed in this study is that to what extent is this disclosure of value and that whether there is any informational content to cooperate with investors in order to determine the stock price? The purpose of this study is to evaluate the information about the earnings and cash circulation in banking companies. There haven't been any observations of studies that evaluate the relation of accounting information. Then the present study considers this field by

evaluating the effect of earnings and cash flow on the expected outcome of the stocks in Iran's capital market.

This study is almost the first of its kind which considers the mentioned criteria in Iran's banking regulations.

2. The importance of the research

The subject of earnings relations has attracted the attention of many investors, managers and analysts in recent years (Salehi and Biglar, 2009). The managers are interested in the stability and endurance of earnings growth because their occupational position is in direct relation to the figures and numbers of earnings which are reported in the financial reports of the firm. On the other hand, the analysts are greatly motivated to provide useful and true information for investors so that they can reach efficient investment decisions. Therefore, our findings proved to be valuable for investors and managers since they are specified for these groups. The information of financial records is the main way for the managers to convey meaningful information to the investors (Salehi and Rostami, 2009; Namazi and Salehi, 2010). If this information is of value relevance, then they will enable the market partners to evaluate the future earnings of the banks. Moreover, the research whether earnings and cash circulation has value relevance in Iran or not, can help the investors to blend this information with investment decisions. Finally the results of this study is useful for those organizations regulating these rules since they provide promoting guidelines in order to improve the policies of financial disclosures to make an environment suitable for increasing the efficiency and stability of banking systems. According to the discussions made here, one can claim that most of the researches related to banking institutions mostly focus on financial efficiency and functionality and the international studies of the banking value relevance address the financial needs and debts and fair value of property (Salehi and Yousefi, 2011). Also researchers have forgotten the relation of banking accounting in relation to the expected stock return. Therefore, our study in a search of a way to fill the gap is about the earnings of banking accounting present in capital markets of Iran. Not having considerable research in this domain and the importance of earning management makes it very crucial for the researchers to evaluate it in different periods of time.

3. Research questions

So, to have research in this case, a question is proposed that one can get the result out of examining its hypothesis:

1. Is the level and variations of the earning used in the expected return and efficiency description of the stock.
2. Is the level and variation of the cash flow used in the expected return and efficiency description of the stock?
3. Does examining the informational content of earnings and cash flows support the value relevance among earning and cash flow?

4. Research background

Mamatzakis and Remoundos (2003) conducted a research which evaluates the financial functions of banks during the decade of 89-2000. their findings indicate that property using, the proportion of debt to property, frugality in scale, to make earning, the size of bank, the ownership status and the function of stock market are crucial factors involved in financial functions of bank. These studies concluded some contradictory reasoning like the effect of size on the efficiency of the finished value.

A study has conducted by Jorion et al., (2005) about the information content of earning anticipation of those companies being newly entered to Athens Stock Exchange indicates that the estimate of managers are far better than the time series model and on the other hand, there is a meaningful and positive relation between the earning anticipation error and the unusual return of stock.

Aharony, Falk, and Yehuda (2006), found that totally accounting on the basis of cash flow and liability accounting have limited information content. However, depending on the life cycle of the company, the description strength of liability accounting is more than cash flow criterion. They also showed that industry on its own doesn't have any effect on this relation.

Another study about the relation between the accuracy of earning and the unusual stock return of those companies newly entered to the stock market of Bangkok by Lonkani and Firth (2005) indicates that the earnings estimates of managers was optimistic and has more accuracy than the time series models and there is also a negative relation between the accuracy of earning estimate and the new unusual long term return, however it is not a meaningful one.

Kim and Kross (2005) assessed the current earnings ability in estimating the cash flows of the next period. The results indicated that the relation between earning and operational cash flow of the next year is increasing as time goes by.

Cheng and Ariff (2007) and Cheng and Nasir (2008) considered the important factors of bank stock market for two samples of Australian and Malaysian banks during 1998 – 2006 and 2000-2004. Both of the studies indicate that the earnings are for a variable related to the price which simultaneously affects the price of the bank stock.

Krishnan (2007) considered whether the fame of a company has any effects on the unusual long term function of the company's newly entered to the USA stock exchange. His research findings approve the direct relation between the credit of a company and the unusual long term return.

Subramanyam and Venkatachalam (2007) used a large sample in a time period of 12 years (1988-2000) and assessed the relative earning ability and cash flows in an attempt to describe the fulfilled innate value of the companies. Their results indicated that earning can better clarify the fulfilled innate values.

Kosmidou (2008) considered the important factors of bank earnings during the European Union integration. He inferred that high return in average property is in relation to the invested banks and the proportion of low whole value to the earning. Also the growth of the internal net product has an outstanding positive effect on the average return of property. However, inflation has an enormous negative effect.

Abuzayed et al., (2009) considers the content of earning information and its different parts which were applied for 15 samples of Jordanian trade banks. The results show that the earnings and their parts have value relevance and explain the efficiency of the whole value and the value of bookkeeping storage.

Finally, Panagiotis et al., (2010) evaluated the relation of earning and cash flow in a period of ten years and examined eleven trade banks as their samples and concluded that earning is more important for the description of stock's expected return since it has a positive effect on stock and also the result was that the risk of revenue amount has positive but not so important effect on the relation of earning return. On the contrary, the risk of paying strength and creditability and liquidity proved to have negative effect on the value process of both little and large banks. This conclusion was drawn that when earnings are not stable, the examining of cash flow information provides very important result. The suggestion is that the investors are looking for the criterion of other function of banks when there is a great fluctuation of earnings but at the time when the investors are assessing the large banking organizations, the cash flow and earnings have the same value.

Considering the subject of research no survey was found in Iran, however, there are researches carried out about the cash flow earning and some of them are mentioned here:

Sagfi and Hashemi (2003) examined the relation between future operational cash flow and historical earning components. The results included: 1) there is a meaningful relation between future operational cash flows and historic operational earning. 2) There is a meaningful relation between future operational cash flows and the historic operational earning components. 3) Providing information about the operational earning and its compartments in proportion to cash flows for estimating future cash flows has greater anticipatory capabilities.

Pourheidari and Kohansal (2004) examined the relation between earning and cash flows with stock return considering the specific characteristics of companies and concluded that earning provides the information for estimating stock return for large companies and those having high debt level and companies without growth and progress. Also the results indicated that cash flows do not provide increasing information for estimation of stock return for both small and large sized companies and those with high and low debt level and the companies without growth and those that are growing.

Dastgir and Mobarakeh (2011) examined the relation of cash flows and stock return and concluded that there is no meaningful relation between operational cash flows and stock return. Also for all companies, only the independent variable of free cash flow had meaningful relation with stock return and considering the coefficients attained, they concluded that the relation was weak in both sectional and combined level and in some of the years not even the weakest relation was found.

5. Research Methodology

The statistics of this research includes the listed banks on TSE. The methodology used was systematic deletion. This way, all the banks having the blow conditions will be included in the research statistics and those not fulfilling the mentioned conditions will be omitted. The conditions are as follow:

- 1) They must be commercial banks, trading their stocks in TSE for the whole period of investigation.
- 2) They should have reported annual accounting statements (balance sheet, profit and loss account, and cash flow statement) for all years under investigation.
- 3) They should end their financial year to the 29th of Esfand (End of Iranian calendar).
- 4) All of their data should be accessible during 200-2010.

In this research, considering the above mentioned cases and limitations, totally 8 banks were selected as the research statistics. The information related to the sample companies is included in Table 1.

Table 1. The sample names of the study

Bank's Name	Bank's Name
Parsian bank	Eghtesad novin bank
Tejarat bank	Post bank
Saderat bank	Sina bank
Mellat bank	Karafarin bank

6. Research hypothesis

Considering the research questions, the present research includes three hypotheses which are mentioned below:

- 1- There is a positive meaningful relation between the level and fluctuations of earnings with the expected stock return.
- 2- There is a positive and meaningful relation between the level and fluctuations of cash flow with the expected stock return.
- 3- There is a positive and meaningful relation between earnings and cash flow.

7. Data collection

Since the present research is searching for the relation between earnings and cash flows, data required for models estimation and hypothesis testing have been derived from databases Tadbir Pardazesh and Rahavarde Novin.

8. Data analyses and hypotheses testing

In this survey, Excel software has been used to prepare and calculate research variables. Totally, to examine the normality of data, we used four diagrams which include histogram, case diagram, normal probability diagram, density function diagram and for drawing them we used Splus 2000 software. Also for more confidence, we used Kolmogorov – smirnov test. So if meaningfulness level is greater than $\alpha = 0.05$, H_0 hypothesis is accepted and the normality of distribution is proved. So the results of data normality test indicate that all variables have normal distribution, ($p > .05$), except the variable of unexpected earnings in each share which does not follow the normal distribution ($p < .05$) and therefore, we should normalize the above variable by doing necessary changes and a logarithmic change in this case can be efficient. To normalize the data, Splus 2000 software has been used. In this research Pearson correlation coefficient was used and the confidence level of 0.95 was taken in to consideration. Pearson test is a parametric test to declare correlation intensity between two variables. This test has evidence in the case of samples which are from normal statistics. So, in order to examine the relation between dependant and independent variables, the below case was used:

Two random variables of X, Y having standard deviation of σ_x and σ_y are taken into consideration. The correlation coefficient of these two is shown by ρ and it is defined as follow:

$$\hat{\sigma}_x^2 = s_x^2 = \frac{1}{n} \sum (x_i - \bar{x})^2 = \overline{x^2} - \bar{x}^2$$

$$\hat{\sigma}_y^2 = s_y^2 = \frac{1}{n} \sum (y_i - \bar{y})^2 = \overline{y^2} - \bar{y}^2$$

p parameter evaluation

$$\rho_{x,y} = \frac{\text{cov}(x, y)}{\sqrt{(\text{var } x)(\text{var } y)}} = \frac{\sigma_{xy}}{\sigma_x \sigma_y}$$

$$\hat{\sigma}_{xy} = s_{xy} = \frac{1}{n} \sum (x_i - \bar{x})(y_i - \bar{y}) = \overline{xy} - \bar{x}\bar{y}$$

Now we write the Pearson entropy evaluation:

$$R = \frac{s_{xy}}{s_x s_y}$$

Whenever we put the findings instead of random sample, the finding of random variable R is shown as r:

$$r = \frac{s_{xy}}{s_x s_y}$$

The amount of r is between -1, +1. If the amount attained is positive, it means that the variations of the variables are in the same direction in other words there is increase in every variable. However, if r is a negative value, it means that an increase in one variable is together with a decrease in another one and vice versa. If the value is zero, it indicates that there is no relation between two variables and +1 show the complete positive coordination and -1 show the full negative coordination.

$$\mathbf{zr = \frac{1}{2} \ln(1 + r)} \\ \mathbf{1 - r}$$

$$Z = \frac{zr - E(zr)}{\frac{1}{\sqrt{n-3}}}$$

To test each one of the hypothesis, we use the coordination coefficient of Pearson and the validity degree is .95. In this test if α or the meaningfulness of the test is greater than 0.05, it is a reason to reject H0 hypothesis which is an indicative of no relation between the variables. It is necessary to mention that all of the tests are carried out by Spss 17 software. Furthermore, in the case of having meaningful relation between variables, appropriate linear models were offered. So, our linear models are in the form of multivariable regression and for its process we used progressive increasing model. Progressive increase: the method of selecting variables to be cooperated in the regression model, when there is no variable in the model, and then adding the variables on the base of their shares in the estimation is called the progressive increase.

Also a meaningful test for each model and the variance analyses test were carried out because with the increase of variables in number, the freedom degrees of regression model is also increased and this causes the average square of regression model to decrease and this may be a weakness point for regression model. Using Kruskal Walis, Friedman tests, the informative degrees of variables were examined.

9. The interpretation of results

The first hypothesis) the Tables number 2-5 show the results of correlation coefficient test and the coefficient of regression model determination for data analyses and also offering an appropriate linear model for banking sector about the first hypothesis.

The test of the first hypothesis indicates that Pearson correlation coefficient is a sample equal with 0.16 which in reliability degree of 0.95 the hypotheses of zero correlation is not rejected. Considering that sig (0.52) is more than error degree (0.05), so the conclusion is that there is no positive and meaningful relation between earning degree and the expected stock return.

The test of this hypothesis indicates correlation coefficient of Pearson sample as 0.62 during six years; it is in reliability degree of 0.95. It means that there is a positive and meaningful relation between earning variations and stock return. So that considering the coefficients of 0.41, the expected stock return can be justified by earning variations.

Considering these variations, similar results were found by Panagiotis et al., (2010) examined the relation between earning and cash flows and concluded that there is a positive and meaningful relation between earning variations and the expected stock return. Pourheidari and Kohansal (2004) examined the relation of earning and cash flows with stock return. Their conclusion was that the earning information provides more relevant information for small companies and companies with little amount of debt and companies without growth rate In Iran.

Table 2. Coefficients of Correlation test results

Variables	amount	Sig.
Earning*expected return	0.16	0.52
changes Earning *expected return	0.62	0.000

Regarding that in the hypothesis test, earning variations has a meaningful relation with the expected stock return in banking sector; we tried to find the best linear regression model for bank group. So in the process of models, for banking sector, the progressive model was used. First the model was processed with variable of earning variation and after the evaluation of results; earning variable is included in the model.

Table 3. Coefficients Determination test results of regression models

Mode	r	R ²	Standard error of estimated
Model 1	0.64	0.41	34.14
Model 2	0.64	0.41	35.21

Model 1: Variable changes earning

Model 2: Variables changes earning and earning

As it can be observed, the value of R² is 0.41 for banks. In this condition the aim is to have a better model with higher determining coefficient and it is also proved by the results.

Considering the regression, if there isn't one of the hypotheses of the model like linearity, we have two ways ahead. One way is to use the appropriate variations so that the model is appropriate under these modifications. The other way is to avoid using the linear regression model and try to apply another model. Both of them have some advantages and disadvantages. Considering this, we processed a new method using the above mentioned variables and the results are included in the following.

Table 4. Coefficients Determination test results of regression models

Mode	r	R ²	Standard error of estimated
Model 1	0.55	0.31	38.98
Model 2	0.57	0.32	39.66

a: Variable changes earning/ firm total assets

b: Variables changes earning/ firm total assets and earning/ firm total assets

R² is 0.31, and the regression model coefficients are as follow:

Table 5. Variables Coefficients regression models results

Model		Coefficient	P-value
Model 1	Coefficient of consolidation	34.942	0.001
	Coefficient changes cash flow/ total assets	8.891 ¹²	0.013
Model 2	Coefficient of consolidation	40.294	0.005
	Coefficient changes cash flow/ total assets	9.207 ¹²	0.013
	Coefficient cash flow/ total asset	-288167.356	0.524

Focusing on the results one can find out that when earning/ asset variable is included in the model, they give greater description of the expected stock return. The test of zero coefficient is also

done and the zero fixed and variable coefficient of earning variations is rejected ($p < .05$) but the zero variable coefficient of earning is not rejected, it means that the coefficient of variable earning is zero. In other words, the expected stock return has relation with earning variables. Since the inclusion of earning variable doesn't increase the description of expected stock return, one can omit it from the regression model and the test itself proves this ($p > .05$).

$$R_{it} = 40.284 + 9.207 \Delta E_{it} / TA_{it} - 1 + e_{it}$$

Tables 6-8 illustrate the results for coordination coefficient tests and the coefficient of regression models for analyzing data and also an appropriate linear model for the second hypothesis.

The test of this hypothesis indicates the sample Pearson correlation equal to .09 for banks group which has reliability of 0.95 and the zero correlation coefficient is not rejected. Considering sig (0.7) is more than error level, this idea that there is a positive meaningful relation between cash flow and expected stock return is rejected

The test of this hypothesis indicates a sample Pearson correlation equal to -0.13 for banking sector with the reliability level of 0.95 the zero correlation coefficient is not rejected. Considering Sig. (0.57) is more than error level (0.05), so the idea that there is a positive and meaningful relation between cash flow and expected stock return is rejected.

Table 6. Coefficients of Correlation test results

Variables	amount	Sig.
cash flow* expected return	0.09	0.70
changes cash flow*expected return	-0.13	0.57

Progressive method was used to process these models in a way that first the model is processed by cash flow variations variable on the whole asset of the company and then the results of cash flow variable on the whole asset of the company are included in the model.

Table 7. Coefficients Determination test results of regression models

Mode	r	R ²	Standard error of estimated
Model 1	0.25	0.06	45.44
Model 2	0.32	0.01	45.91

Model 1: Variable changes cash flow/ firm total assets

Model 2: Variables changes cash flow/ firm total assets and cash flow/ firm total assets

R² is 0.06. The regression model coefficient is included in Table 8.

Considering the attained results in banking group one can interpret in this way that the cash flows variations variable on the whole asset and cash flows variable/ total asset is not affective in description of expected stock return. The zero coefficient test was also done and the zero variables coefficients are proved ($p > .05$) and only the zero fixed coefficient is rejected. It means that the fixed coefficient is not zero. So we can't offer a model for description of expected stock return in this way. In other words, there is no linear meaningful relation between the expected stock return and cash flow variables on whole asset and cash variations/ asset.

Table 8. Variables Coefficients regression models results

Model		Coefficient	P-value
Model 1	Coefficient of consolidation	34.472	0.007
	Coefficient changes cash flow/ total assets	-4.368 ⁹	0.299
Model 2	Coefficient of consolidation	26.886	0.086
	Coefficient changes cash flow/ total assets	-6.583 ⁹	0.202
	Coefficient cash flow/ total asset	248.180	0.431

Tables 9-12 illustrate the results of correlation coefficient tests, regression model coefficient and model variance analyses for examining the adequacy of the regression model about the third hypothesis. The analyses of the third hypothesis are as follow:

The test the hypothesis indicates the sample Pearson correlation coefficient as 0.09 for bank groups. In reliability level of 0.95 the zero correlation coefficient is rejected. Considering sig (0.7) is more than error level, one can conclude that there is no positive and meaningful relation between earning and cash flow.

Some researches related to this are mentioned below.

Table 9. Coefficients of Correlation test results

Variables	amount	Sig.
Earning* Cash flow	0.09	0.70

For processing these models, the progressive model was used in a way that first the model is processed only by earning variations variable on the whole asset of the company and after examining the results, earning on whole asset of the company is included and later the cash variation variables and cash variables on whole asset of the company are included. The results are presented in Table 10.

Table 10. Coefficients Determination test results of regression models

Mode	r	R ²	Standard error of estimated
Model 1	0.557 ^a	0.311	38.98296
Model 2	0.573 ^b	0.329	39.65994
Model 3	0.678 ^c	0.460	36.73503
Model 4	0.679 ^d	0.461	37.98854

a: Variable changes earning/ firm total assets

b: Variables changes earning/ firm total assets and earning/ firm total assets

c: : Variables changes earning/ firm total assets and earning/ firm total assets and changes cash flow/ firm total assets

d: Variables changes earning/ firm total assets and earning/ firm total assets and changes cash flow/ firm total assets and cash flow/ firm total assets

Paying closer attention, one can notice that the more variables present in the model, more description of the expected stock return is provided. So, we'll carry the variance analyses model for determining the adequacy of the above regression models. The results are included in Table 11.

Table 11. Variables Coefficients regression models results

Model		Coefficients	P-value	Standardized Coefficients
Model 1	Coefficient of consolidation	34.942	0.001	
	Coefficient changes earning/ total assets	8.891 ¹²	0.013	0.557
Model 2	Coefficient of consolidation	40.294	0.005	
	Coefficient changes earning/ total assets	9.207 ¹²	0.013	0.577
	Coefficient earning/ total assets	-288167.356	0.524	-0.135
Model 3	Coefficient of consolidation	33.396	0.014	
	Coefficient changes earning/ total assets	1.757 ¹³	0.005	1.102
	Coefficient earning/ total assets	-269864.650	0.520	-0.126
	Coefficient changes cash flow/ total assets	1.109 ¹⁰	0.075	0.639
Model 4	Coefficient of consolidation	32.108	0.047	
	Coefficient changes earning/ total assets	1.734 ¹³	0.009	1.087
	Coefficient earning/ total assets	-266415.458	0.540	-0.125
	Coefficient changes cash flow/ total assets	1.051 ¹⁰	0.156	0.605
	Coefficient cash flow/ total asset	42.694	0.873	0.040

When the variables are included in the model one by one, R² coefficient is increased. However, considering the test of zero coefficients, we notice that a model with one variable provides enough description. Though the increased variables cause increased coefficients, it

increases the freedom degree of regression model too and this causes the average squares of regression model to be decreased and may adversely affect the adequacy of the regression model. For this reason, we analyzed the variance model and reported the results in the following table.

Table 12. Variance analysis result of regression models

Model	Total squares	D.f	Mean	F	P-Value
Model 1	regression	1	11649.615	7.666	0.013 ^a
	Error	17	25834.412		
	Total	18	37484.026		
Model 2	regression	2	12317.454	3.915	0.041 ^b
	Error	16	25166.573		
	Total	18	37484.026		
Model 3	regression	3	17242.095	3.915	0.023 ^c
	Error	15	20241.932		
	Total	18	37484.026		
Model 4	regression	4	17280.216	2.994	0.056 ^d
	Error	14	20203.811		
	Total	18	37484.026		

studying the results one can understand that the adequacy of all models are approved ($p < .05$) except the fourth model, so the best regression model estimating the stock return is as follow:

$$R_{it} = 33.396 - 269864.650 E_{it} / TA_{it} / TA_{it-1} + 1.109 \Delta CF_{it} / TA_{it-1} + e_{it}$$

Of course, it can be written as standard coefficients

$$R_{it} = -.126 E_{it} / TA_{it-1} + 1.102 \Delta E_{it} / TA_{it-1} + .639 \Delta CF_{it} / TA_{it-1} + e_{it}$$

Considering the mentioned reasons, one can conclude that these reasons are important to attain the results:

- 1- The capital and investment market is weak from the view point of informational functionality and using the information is exclusive for a specific group.
- 2- Although the history of preparing cash flow report in Iran is less than earning reports and the extent to which investors are familiar with this case is less than earning and its related accounting, the determining coefficient calculated for the cash flows and the cash flow variations indicate that the informational content of cash flows for investors is increasing and in future, cash flows can be included in decision models in capital market.
- 3- Also, one of the cases which justify the weak relation of net earning with expected stock return is the fluctuations present in TSE. The other reason can be considered as the time limit for research, so doing this research in long term can provide more accurate results. Also, there is the effect of other cases like rumor specifically in the stocks of banking group.

Conclusion and remarks

- 1- There is a positive and meaningful relation between earnings and cash flows.

2- There is no relation between earning and the expected stock return, but there is a positive and meaningful relation between earning variations and the expected stock return. 3- There is no positive and meaningful relation between cash flows and cash flows variations with the expected stock return.

Suggestions

Since the aforementioned banking risks proved to contribute to the accounting valuation process it will be interesting to be also disclosed in the annual financial statements of the banking institutions as additional information which can probably help investors to assess the future value of the firm. Besides doing analyses on the expected stock return is necessary and other cases are also affective in describing the expected stock return. The researchers and managers must be more active in the market so that the expected stock return which is one of the most important factors of prediction and estimation in each company be examined from different viewpoints.

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