

Investigation the impact of earnings forecast features on cost of common stock of companies

Naghi Bahramfar¹, Samad Moradi²

¹. Faculty member and Assistant Professor of Islamic Azad University of Qazvin

². Master of Accounting, Islamic Azad University of Qazvin

Abstract: One of the main factors in variables affect the cost of capital is disclosure which in recent years has received more attention. Economic theory predicts that, in general, inversely related to the disclosure of the cost of equity for greater disclosure reduces information asymmetry. The most recent theory predicts that the negative relationship between disclosure quality and cost of equity exist. Because management forecasts aspect of the disclosure, and companies that provide a clear picture of future activities; Market shares are more popular, and one of the ways that the image draws to shareholders, profit forecast is provided by the management, the purpose of this study was to determine the effect of such disclosure and predict the properties and characteristics of earnings forecasts on the cost of equity companies. In the present study, considering the variables predicting bad news releases, anticipated losses, deviation of forecasts, forecast error, volatility in earnings as anticipated features information under the terms of the independent variables and the cost of equity as the dependent variable, information from the financial statements of 90 companies in Tehran Stock Exchange during the period 2007 to 2011 were studied. The results showed that the bad news and low stability at a significance level of 5%, as one of the strengths of the profit forecast by management, with the cost significant relationship equity.

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1. Introduction

Companies because of profitable investment projects available, debt settlement reached maturity, increase working capital and pay dividends to shareholders have access to numerous resources. These sources of cash flow from operating activities and asset sales (as internal sources of financing), loans, bank borrowings, issuances of new equity (as external funds) are included. (Ahmadzadeh et al, 2005). One way of raising capital is by owners of capital. Based on the importance of this issue, this study examines one of the most important factors affecting the cost of equity, the expected profit and its features will be discussed as a form of disclosure.

Problem Statement

Financing and the ability to participate in the determination of potential funding sources (both internal and external) investments and provide for proper financial planning, corporate development, is the main factor and company management to determine the appropriate funding sources to finance the cost of certain and the work that the funding sources of return and risk involved instead. Companies by selling securities at prices higher than the current value of funds that will be paid to the holders of these securities, reduce their financing costs. Since the supply of capital for investment is based on the expected rate of return, the Company manages the capital necessary to meet this goal should produce a rate lower than the current rate (Jahankhani, 1994).

On the other hand, the cost of financing a concept that is associated with both risk and return criteria. Therefore, to achieve a minimum cost of financing means to achieve the optimum combination of risk and return management.

The importance of this issue, several studies in different countries in terms of factors affecting the cost of capital has caused.

In 1961 that "Keref" model to quantify the level of exposure of the business unit, much research about disclosure and its relation to the characteristics of the business unit level, factors affecting it and its impact on different variables was performed. The most important aspect of the research is to reveal the effects on corporate risk and funding opportunities have been examined.

On the one hand, the possible role of disclosure in reducing financing costs and the costs to the extent of disclosure and increasing cost-benefit constraints that govern the work of all business units and non-commercial and differences in financial market conditions and investment with other countries, the need for further research in this area is emphasized. Disclosure of variables that affect the cost of capital, which in recent years has received gets more attention. Economic theory predicts that, in general, inversely related to the disclosure of the cost of equity capital for further disclosure reduces information asymmetry. The most recent theory predicts that the negative relation between disclosure quality and cost of equity.

Francis, Nanda and Olson (Francis, et al. 2008) voluntary disclosure index for the year (2001) to measure the relationship between disclosure and cost of equity created indicating a negative relationship between the rate and the cost of equity. But that relationship when earnings quality control (QC profits in the hands of administrators) cannot be maintained.

They also completed tests to assess their specific type of voluntary disclosure and concluded that the disclosure controls even when earnings quality is negatively correlated with the cost of equity.

Baginski and Rakow (2009) carried on a disclosure policy variable management profit forecasts for the years 2001 to 2004 were investigated. Their structure is when a company releases its forecast. They do this even when they concluded that the quality of earnings, the company's beta and the ratio B/M control the cost of equity is negative.

So according to what has been said can be said, generally, two different perspectives, and the disclosure of adverse effects can affect the cost of capital.

The first dimension, it can be argued that the disclosure of more information leads to more transparency, reduce risk, lower expected rate of return on shareholders and ultimately reduce the cost of equity capital. In view of the level of disclosure increases price volatility, increasing the efficiency of enterprise risk, increase the rate of return expected by shareholders and ultimately increases the cost of capital. (Dr. Osmani, 2001)

It can be seen in the effect of disclosure on cost of equity capital is different and sometimes contradictory results obtained by different researchers. Therefore, in this study we have tried to research on forecast data, projected profits that kind of disclosure by management to resolve conflicting results obtained in studies of the impact of disclosure on cost of equity help. Why expose some times, reduce costs and increase its common stock. Is profit forecast by management and conflicting results have also been disclosed as a form of self-interest disclosure? What are the characteristics of this kind of disclosure? Predict what features are provided by the management?

The Basics of theoretical and review of the literature

It can also affect the cost of the common stock of companies (Easley, Ohara: 2004). The current theoretical resources to distinguish between quantity and quality of disclosure were developed. The

researchers showed that the quantity and quality of disclosure leads to admissibility participate in the capital market and reduce risk by reducing the information asymmetry. One of the company's disclosure, disclosure quality measurement and its features were considered.

Accounting information is used by investors and creditors, to take decisions on time are important. In fact, investors want to know whether they can trust the information the financial statements presented by the directors of the company or not. Investment is an important factor in the development of the present century. Investment requires planning.

Planning, operation may provide suitable opportunities available. To increase the effectiveness of the plan to improve the ability to predict accurately and consistently predicts. Key element in the decision is the economy. Investors and creditors, and other parties to manage economic decisions are based on predictions and expectations.

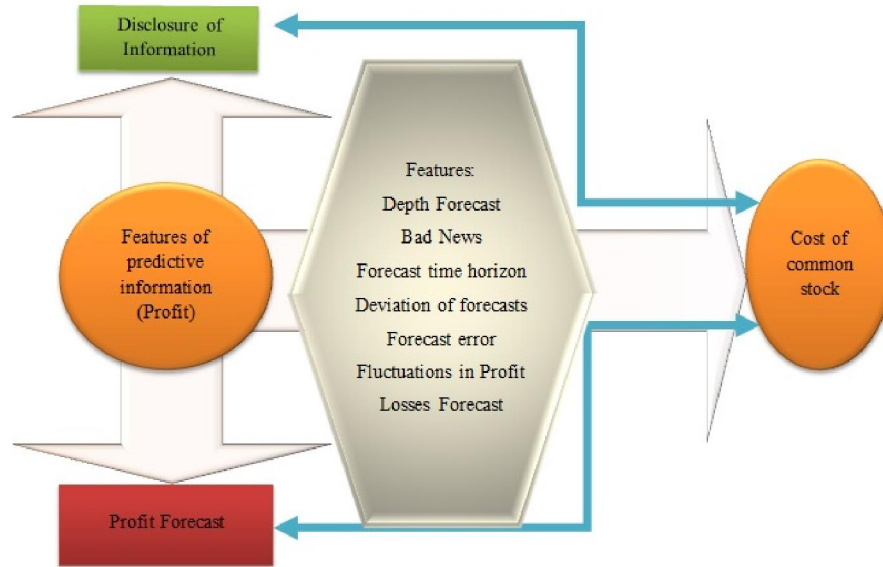
Also, according to the company's annual budget, forecast production, sales and earnings per share of budget control and reporting midterm and the realization projections, the stock price changes effective. Perhaps the most important factor influencing the stock price at the forecast earnings per share of search was considered. The most-important source of information for investors, creditors and other users of corporate data, profit forecasts provided by them are at specified intervals.

The findings of Biddle et al (Biddele, et al, 1995), Sirius (2007) and Gong et al (Gong, et al, 2009) indicate an emphasis on shareholder dividends as a means to evaluate and measure the Company's operating business units.

This study uses the framework provided by Hearst (2008) examines how differences in a number of key features, such as projected earnings management information has not been audited, the cost of equity influence.

As noted above, provides market intelligence to management earnings forecasts the quality of the data allows us to suggest that, insight into the relation between disclosure and cost of equity gain. In this study, a type of disclosure (forecast earnings management) focused that it gives us a view that certain inferences about the relationship between management earnings forecast characteristics and the cost of equity.

Using this framework, we anticipate numerous features and history, as well as forecasts established to examine and then to study how these features affect the cost of equity pay. In fact, the graph model and features of interest to this study are as follows:



A forecast is a prediction about the future of charge. The term refers to anticipate future issues and events. Visualize a situation or condition in the future is predicted. (Hydman, et al. 2009) also said Calp et al., the estimated position is unknown. One of the characteristics of the information required for accounting, interest Profit in the forecast.

In fact, accounting information must be provided so that users of this information will help predict future economic events. In cases such as accounting Profit, stock price returns and risks can be partly traced. The anticipated Profit is of particular importance. Because one of the most important incentives for people to invest the profits (Mahdavi et al., 2007).

Section 47 of the Financial Accounting Standards Board Statement No. 1 in America states those investors, creditors and others to assess the profitability of Profit, ability to pay dividends, projected future Profit and investment firm or the credit risk assessment of the company they use.

Thus the importance of Profit and forecast, as one of the main criteria for evaluating the performance of managers and companies realized. Ray Ball and Associates studies (Raybol, at al.) shows that earnings per share and Profit forecast has effects on the market price of common stock.

Roland (RulandT, 1978) earnings prediction methods are divided into three categories:

Anticipated by management

Predicted by analysts

Forecasting using time-series models (random walk)

In this study, due to lack of financial analysts in Iran and consequently predicted by their absence, as well as problems related to time series models,

according to research studies, as well as Roland, Jagy, Clement and colleagues recently showed that the prediction accuracy by more management than other methods, the profit forecasts used by management and the impact of these features to predict the cost of equity is discussed.

Elena and colleagues (Elena, et al, 2012) in an article titled "The relationship between the cost of equity and voluntary disclosure" of financial and non-financial companies choose 121 members of the Swiss Stock Exchange and the residual income valuation model to determine the effect disclosures on capital Expenses paid.

They found that non-financial and financial firms voluntarily disclose Swiss capital cost increases have reduced their the inverse relationship between cost of capital and disclosure level and the addition of control variables such as firm risk, leverage, and ignore the company's strategy to expose (conservative or Offensive) verified.

Feng et al (fang, et al, 2010) in an article entitled "Predicting Managers and Cost of Capital", with 3539 companies selected to provide annual forecasts and projections 4095 midterm management company that provides the relationship between the forecasts and earnings per share, capital expenditures were studied. What was more focused on the effect of voluntary disclosure quality on the cost of capital? The study concluded that the high quality of the earnings per share forecast cost of capital is negative. In other words, whatever the quality of the forecast increase in capital cost is reduced.

Kothari, et al, 2009) in an article titled "The effect of exposing managers, analysts and financial journals on cost of capital, return volatility, and analyst forecasts", selecting more than one hundred

thousand reports disclosed by managers, financial analysts and reporters of journals, to investigate the relationship between disclosure, credibility and provide timely disclosure of return paid on capital cost and instability. They found that economic factors important to understand the impact of disclosure on the cost of capital and other cases are very important.

According to Chang and colleagues (Chang, et al, 2008) and information about the anticipated features and benefits managers play an important role in reducing information asymmetry between the managers and investors. They also, according to research carried out by previously demonstrated that projections involve managers and useful information.

Gouda et al (Gode, et al, 2008) in an article titled "Improving the relationship between costs and returns by reducing the prediction error and the profitability of directors "to examine the relationship between forecast errors in earnings per share and paid the cost of capital. They selected a sample of 54,516 company information for 25 years from 1983 to 2007 was a positive relationship between the errors in earnings per share and capital costs were projected. They were used to calculate the capital costs of PEG model, because of the cost of capital does not provide a definitive estimate of the OJ model.

Lance and Park (Lennox et al, 2006) conclude that the reduction in information asymmetry between managers and investors, reduces the opportunity for some investors to use personally identifiable information to achieve more profits by and thus reduce information asymmetry reduces the cost of investment.

Kim, et al. (2005) in an article titled "Voluntary Disclosure and Cost of Capital: Evidence from the profit before directors' Choice 569 Companies Quarterly forecasts from 1992 to 1997 to examine the relationship between cost of capital and earnings per share forecast and the relationship between cost of capital and the real interest rate forecast after the company began.

They also calculate the cost of capital used for the PEG model the bad news is that the information content of the earnings per share forecast is good news investors and bad news in earnings per share forecast to show a greater response.

According to Diamond (Diamond, 2004) to reduce the information asymmetry increases the liquidity of the company and reduces the cost of capital.

Gitsman (2005) examined the relationship between disclosure and cost of capital for firms, the London Stock Exchange concluded that the negative relation between disclosure and cost of capital there. However, this relationship was significant only for firms that adopt accounting policies aggressively.

Zhang and Ding (2006) investigated the relation between disclosure and cost of capital in China's capital market firms. Results indicate that there is an inverse relation between disclosure and cost of capital.

Brown (2007) the relation between disclosure quality and information asymmetry paid. The results show that the quality of disclosure is inversely related to information asymmetry. Also, the quality of disclosure and trading of shareholders who have access to confidential information, there is an inverse relationship. Moreover, according to previous findings on the cost of capital by increasing information asymmetry increases, the results indicate that firms with higher disclosure quality, lower cost of capital.

Spinouza and Troumbeta (2007) study of Spanish firms concluded that relation between disclosure and cost of capital is affected by the accounting policies are selected.

Special Committee on Financial Reporting Investigations America Association of Certified Public Accountants (AICPA) in 1994 stated: Increased disclosure of information for users who are not able to determine the company's future prospects, it is useful and beneficial by reducing the inappropriate allocation of assets is possible.

Unlike these studies, Financial Executive Forum (quoting Butsovan, 1997, p. 338) say that Disclosure leads to increased volatility in stock prices and thereby increase the risk and increase the cost of common stock will follow.

Graham, Harvey and Rajgopal (2005) in a study using a survey of 400 chief financial officers were found to have the number of correct predictions that can reduce information risk.

Theoretical framework Hurst et al (2008) on the assumption that the consequences of management earnings forecasts predict functional was features. Hurst et al., in anticipation of such circumstances and the specific characteristics of the company management decided to release the forecast impact on and anticipated features, such as quality traits to predict the effects of management and outcome prediction forecast is defined.

Omran and pointn (2004) in an article entitled Egypt's growing economic determinants of capital costs in various patterns to measure the cost of equity is examined. For example, in the heavy industry sector business and financial risk important to know.

Haidar Mohammed (2012) in an article titled "The relationship between managers and average cost of capital before profits." By selecting a sample of listed companies in Tehran Stock Exchange for a period of 7 years, from 2003 to 2009, forecast profit executives, and in particular to estimate the effect of

non-discretionary and discretionary accruals on the weighted average cost of capital paid. Their results suggest that the inverse relationship between the poor and non-discretionary accruals.

Hshi et al (2009) Effects of addressing future financial information on the quality of earnings forecasts were evaluated. In this regard, the impact of prediction errors on Auditing Standard 340, the number of revisions and stock price were analyzed. The results showed that the implementation of Auditing Standard 340, decreases the prediction error and the change in the stock price but with the implementation of the revised auditing standards often anticipate profit dropped compared to end.

Kordestani and Majdi (2006) and qualitative characteristics of the relationship between income and cost of equity review and concluded that the four characteristics affect earnings persistence, earnings predictability, relating to the shares of profits and dividends being conservative with the cost of equity is a meaningful relationship.

Thaghafi and Bülow (2009) have investigated the relation between cost of equity and income characteristics examined, showed that only benefit the stability characteristics of a negative relationship between the cost of equity.

Rsaeian, Hosseini (2008) showed the relation between accrual quality and cost of capital and debt investigated and demonstrated that the company's cost of capital will not affect the quality of accruals and its components.

Mehrani and Hesarzani (2011) investigated the relationship between profits and volatility forecasts of accounting earnings in the short term and long term time horizon examined. The study also confirmed a significant inverse relationship between earnings volatility and its forecasts, showed that historical earnings forecast future profit is important, and secondly, the stability of earnings, a key factor in the analysis of the relationship between volatility and the possibility of predicting it.

In the short-term time horizon, the research evidence suggests that the benefits of low-swing profit forecasts for the full swing of sustainability and more. Also, regardless of income fluctuations, interest located in the upper bounds on the contrary, may be more predictable. In addition, low levels of volatility in earnings forecasts of operating cash flows, relative to fluctuating levels of predictive ability is better.

Research hypotheses:

According to the theoretical assumptions made and features are defined as follows: defining the research is:

1. The relationship between the forecasts and the cost of equity capital is positive and significant.

2. The cost of equity is a positive relationship between the news and there's bad.

3. The expected losses and the cost of equity is a positive relationship.

4. The deviation between the prediction and the cost of equity is a meaningful relationship.

5. Relationship between forecast error and the cost of equity there.

6. The anticipated time horizon and the cost of common stock, there is a significant relationship.

Research methodologies:

In this research, based on financial data for 90 companies listed in Tehran Stock Exchange from 86 to 90 years and within 5 years of the anticipated features and benefits is its effect on the cost of common stock.

The populations included in this study are listed companies in Tehran Stock Exchange end of the financial year to end-March, and the information about them is available.

To determine the sample used in this study, according to a stock company, their activities, their sizes, etc., a purposive sampling method used. This means that the conditions for a homogeneous sample, defined as companies that are considered part of the sample who have the condition. The exchange between the companies, companies that have all the following conditions, for example, be considered:

1. In order to homogenize the sample in terms of number of companies, companies that are considered part of the sample prior to 2007, are listed on the Stock Exchange and by the end of 2012, stock trading symbol of the sign is not removed.

2. For more validity and reliability of results, all stock companies except investment companies, are among the examples. The nature and type of business venture is different from all other companies.

3. To enable the voting stock, shares of companies that will be part of the sample, at least once every 3 months is exchanged.

According to the provisions of 90 participants in this research study 2007-2011 for example, are considered.

According to the study period and the number of firms in the study, the final sample size of 450 companies will be considered.

Research variables and how they are calculated

The cost of common stock

The dependent variable in this study is to measure the cost of common stock of the formula EBO (evaluation model based on accounting numbers) is used:

$$P_t = b_t + \sum_{i=1}^T (1+r)^{-i} \times E_t(x_{t+i} - rb_{t+i-1}) + (1+r)^{-T} E_t(P_T - b_t)$$

Which:

P_t: Current market price per share

b_t: Book value per share

b_{t+i}: Book value per share in the future

X_{t+i}: Earnings per share in the future

r: Capital charge rate

Et(Pt-bt): Excess of the book value of its projected market price at T time

EBO model in this study is calculated as follows:

$$P_{86} = \frac{E(d_{87})}{(1+r)^1} + \frac{E(d_{88})}{(1+r)^2} + \frac{E(d_{89})}{(1+r)^3} + \frac{E(d_{90})}{(1+r)^4} + \frac{E(d_{91})}{(1+r)^5} + \frac{E(d_{92})}{(1+r)^6}$$

$$P_{87} = \frac{E(d_{88})}{(1+r)^1} + \frac{E(d_{89})}{(1+r)^2} + \frac{E(d_{90})}{(1+r)^3} + \frac{E(d_{91})}{(1+r)^4} + \frac{E(d_{92})}{(1+r)^5}$$

$$P_{88} = \frac{E(d_{89})}{(1+r)^1} + \frac{E(d_{90})}{(1+r)^2} + \frac{E(d_{91})}{(1+r)^3} + \frac{E(d_{92})}{(1+r)^4}$$

$$P_{89} = \frac{E(d_{90})}{(1+r)^1} + \frac{E(d_{91})}{(1+r)^2} + \frac{E(d_{92})}{(1+r)^3}$$

$$P_{90} = \frac{E(d_{91})}{(1+r)^1} + \frac{E(d_{92})}{(1+r)^2}$$

Given the above model is used to calculate r from DPS expected. DPS should be anticipated on the basis of the pre-computed. Because DPS compared to EPS of sample firms are usually more

volatile, so the DPS to calculate the expected (predicted) we use the following model:

$$E(DPS) = GeometricMeanPayoutRatio \times E(EPS)$$

E(DPS): Expected dividend

E(EPS): Earnings per share expected

Geometric Mean Payout Ratio: Geometric mean ratio of dividends per share to earnings per share in the last 5 years to calculate E (EPS) we use the following model:

$$EPS_t = a + bEPS_{t-1}$$

Next year EPS to perform calculations using exponential smoothing to predict the process is as follows:

EPS forecast data for 2007 years from 2002-2006 years

EPS forecast data for 2008 years from 2003-2007 years

EPS forecast data for 2009 years from 2004-2008 years

EPS forecast data for 2010 years from 2005-2009 years

EPS forecast data for 2011 years from 2006-2010 years

EPS forecast data for 2012 years from 2007-2011 years

Collected and analyzed using the programming and operations research techniques and the use of minimizing the model MSE

$$= \sqrt{\frac{\sum_{t=1}^n (BEPS - AEPS)^2}{n}}$$

values of a and b calculated, and using EPSt = a + bEPSt-1, EPS forecasts.

For each of the years 2007-2012, according to data from five years ago, the geometric mean ratio of interest payments to earnings per share is calculated and the resulting number is multiplied in the same year EPS forecast, so DPS was expected after calculating the projected DPS, r are calculated using the EBO model.

Another method is the main method for calculating the EBO model developed in this study are as follows:

$$P_{86} = Bv_{86} + \frac{EPS_{87} - rbv_{86}}{(1+r)^1} + \frac{EPS_{88} - rbv_{87}}{(1+r)^2} + \frac{EPS_{89} - rbv_{88}}{(1+r)^3} + \frac{EPS_{90} - rbv_{89}}{(1+r)^4} + \frac{P_{90} - bv_{90}}{(1+r)^4}$$

$$\begin{aligned}
 P_{87} &= Bv_{87} + \frac{EPS_{88} - rbv_{87}}{(1+r)^1} + \frac{EPS_{89} - rbv_{88}}{(1+r)^2} + \frac{EPS_{90} - rbv_{89}}{(1+r)^3} + \frac{P_{90} - bv_{90}}{(1+r)^3} \\
 P_{88} &= Bv_{88} + \frac{EPS_{89} - rbv_{88}}{(1+r)^1} + \frac{EPS_{90} - rbv_{89}}{(1+r)^2} + \frac{P_{90} - bv_{90}}{(1+r)^2} \\
 P_{89} &= Bv_{89} + \frac{EPS_{90} - rbv_{89}}{(1+r)^1} + \frac{P_{90} - bv_{90}}{(1+r)^1} \\
 P_{90} &= Bv_{90} + \frac{P_{90} - bv_{90}}{(1+r)^1}
 \end{aligned}$$

And the placement of accounting data required by the model is a powerful software and Excel Solver tool with a Firefox (add-ins) can be related to Excel r (rate cost of common stock) to calculate.

Depth Forecast:

Variable depth predicted using the difference between the lowest and the highest quarterly profit forecast has been obtained.

Bad News

Variable bad news, which is dummy variable if the actual profit is less than anticipated benefit of this variable is equal to one and zero otherwise.

Losses predicted

Variable anticipated losses, loss of seasonal dummy variable if the variable is predicted to be equal to one and zero otherwise.

Deviation of forecasts

$$\begin{aligned}
 \frac{TCA_{j,t}}{ASSETS_{j,t}} &= \varphi_0j + \varphi_1j \frac{CFO_{j,t-1}}{ASSETS_{j,t}} + \varphi_2j \frac{CFO_{j,t}}{ASSETS_{j,t}} + \varphi_3j \frac{CFO_{j,t+1}}{ASSETS_{j,t}} + \varphi_4j \frac{\Delta REV_{j,t}}{ASSETS_{j,t}} + \varphi_5j \frac{PPE_{j,t}}{ASSETS_{j,t}} \\
 &+ v_{j,t}
 \end{aligned}$$

The time-series regression equation and a three-year period are estimated for each firm. The estimation of the remaining leads to 3 (error) for each of the three remaining companies that SD will be equal to the quality of accruals.

Systemic risk

Systemic risk variable using the following formula and rotations are calculated over 36 months:

$$\beta = \frac{Cov(r_f, r_m)}{\delta^2(r_m)}$$

Size of Companies

Variable-sized enterprises, is the natural logarithm of market value of equity.

Ratio of book value to market

The research model:

According to the introduction to the characteristics and assumptions and variables introduced, the research model is as follows:

Deviation of the predicted variable, with the average difference between the predicted earnings management and real earnings were significant, respectively.

Forecast error

Forecast error variable, the absolute difference between actual earnings and profits for the pin divided by the absolute income is anticipated.

Fluctuations in interest

Variable earnings volatility using standard deviation of net income divided by total assets is obtained.

Accruals Quality

Accruals quality using the standard deviation of residuals of the regression model and that the residual standard deviation was calculated by the following model:

Ratio of book value to market variable, the natural logarithm of book value to market value of equity is considered.

Stability of Income

Stability of Variable Interest, if standard deviation profit dummy variable is greater than the average standard deviation profit is the same attribute; this variable is equal to one and otherwise would be zero.

Forecast horizon (the record company on the Stock Exchange)

Forecast horizon varies with the logarithm of time in the company's stock by the end of the financial year calculated on daily basis.

$$COC = \beta_0 + \beta_1 \text{Width} + \beta_2 \text{BadNews} + \beta_3 \text{MFH} + \beta_4 \text{MFLoss} + \beta_5 \text{Bias} + \beta_6 \text{Error} + \beta_7 \text{EarnVar} + \beta_8 \text{AQ} + \beta_9 \text{Beta} + \beta_{10} \text{LnSize} + \beta_{11} \text{LnBM} + \text{BetaDV} + \text{SizeDV} + \text{BMDV} + \text{EarnvarDV} + \varepsilon$$

In summary, the study variables are shown in table below:

Symbol	Surrogate measure of variable	Type of variable	Variable
Width	<i>HEPS - LEPS</i>	main independent	Depth Forecast
BadNews	Dummy variable that predicted if income is less than the true benefit of this variable is equal to one and otherwise would be zero.	main independent	Bad News
MFH	(Logarithm) arrival time to stock up on the Day of fiscal year end	main independent	Forecast time horizon
MFLoss	If a loss is anticipated that seasonal dummy variable equal to one, otherwise the variable will be equal to zero.	main independent	Losses predicted
Bias	<i>FEPS - EPS</i>	main independent	The deviation between
Error	$\frac{ FEPS - EPS }{ FEPS }$	main independent	Forecast error
EarnVar	$\frac{S.TDVEARN}{ASSET}$	main independent	Fluctuations in interest
COC	$P_t = b_t + \sum_{i=1}^T (1+r)^{-i} \times E_t(x_{t+i} - rb_{t+i}) + (1+r)^{-T} E_t(P_T - b_T)$	Dependent	The cost of common stock

The results of research

To analyze the data in the study of descriptive and inferential statistics were used. Descriptive statistics, including mean values of descriptive statistics, the distribution companies and the Stock Exchange will be reviewed. And given the fact that this model does not meet the requirements of the market is recognized. Therefore, in calculating the cost of common stock of the Company's stock price minus the cost came. Negative cost justification is not as common stock and, therefore, in this study, the negative output (negative cost of common stock) as an outlier is excluded from the model. So in some

years, and companies, tries to test the hypothesis was not be used saddle panel test for the OLS model to test our hypothesis. Thus, the statistical validity of ordinary least squares (OLS) and the relationship of the dependent variable and the independent variables were identified. Mathematical calculations and operations research, using Eviews and SPSS and EXCEL software will perform.

According to the above-mentioned description of the study variable ordering method for estimating the model by OLS method will be as follows:

The layout for individual companies and for the entire study period would be as follows:

- $COC = \beta_0 + \beta_1 \text{width} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$
- $COC = \beta_0 + \beta_1 \text{BadNews} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$
- $COC = \beta_0 + \beta_1 \text{MFH} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$
- $COC = \beta_0 + \beta_1 \text{Mfloss} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$
- $COC = \beta_0 + \beta_1 \text{Bias} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnvarDV}$
- $COC = \beta_0 + \beta_1 \text{Error} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$
- $COC = \beta_0 + \beta_1 \text{EarnVar} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$
- $COC = \beta_0 + \beta_1 \text{AQ} + \beta_2 \beta + \beta_3 \text{size} + \beta_4 \text{BM} + \beta_5 \beta \text{DV} + \beta_6 \text{sizeDV} + \beta_7 \text{BMDV} + \beta_8 \text{EarnVarDV}$

Once these settings for all businesses and for all years were studied using Eviews software will fit.

4 layouts of the original research model that includes the dependent variables are independent and control is as follows:

Table 2: OLS estimation results of the model study

Prob	t-Statistic	Standard deviation	coefficient	Variable
0.2696	1.112490	0.139858	0.155591	History of the company in exchange
0.1496	-1.456484	0.100354	-0.146164	Size of Companies
0.9664	0.042220	0.146182	0.006172	Large Enterprises
0.3588	0.923515	0.126423	0.116753	Book value to market
0.9041	-0.120936	0.160464	-0.019406	Type of stock (value)
0.4973	0.682229	0.000215	0.000147	Deviation of forecasts
0.6227	-0.494217	0.015810	-0.007814	Forecast error
0.1129	-1.604961	0.255923	-0.410746	Forecast Losses
0.0044	2.941763	0.138593	0.407707	Bad News
0.5766	-0.560900	0.000208	-0.000117	Forecast Depth
0.2799	-1.088685	2.087004	-2.272090	Fluctuations in interest
0.0115	2.594132	0.233948	0.606891	Stability of Income
0.0785	1.784974	0.138883	0.247903	Systemic risk
0.5846	-0.549182	0.213039	-0.116997	Risky stock
0.5631	0.580862	1.769499	1.027834	Accruals Quality
0.6272	0.487769	0.970181	0.473224	Cost of equity
0.227045	Mean dependent var		0.365024	R-squared
0.351781	S.D.dependent var		0.232737	Adjusted R-Squared
0.646423	Akaike info criterion		0.308137	S.E.of regression
1.096848	Schwarz criterion		6.836301	Sum squared resid
0.827888	Hannan-Quinn criter		-12.442630	Log likelihood
1.685691	Durbine -watson stat		2.759339	F-statistic
			0.000209	Prob(F - statistic)

According to figures obtained from the model-based and model using OLS model study will be as follows:

$$R = 0.155591025056*MFH - 0.146164295324*LNSIZE + 0.00617179542403*SIZEDV + 0.116753499243*BM - 0.0194059816791*BMDV + 0.000146814147833*BIAS - 0.00781372309288*ERROR - 0.410746265173*MFLOSS + 0.407707404285*BADNEWS - 0.000116912828384*WIDTH - 2.27208984602*EARNVAR + 0.606891335994*EARNVARDV + 0.247903217009*B - 0.116997455874*BDV + 1.02783387346*AQ + 0.473224315903$$

Also;

$$R^2 = 0.365 \quad DW = 1.686 \quad F - statistic = 2.76$$

The results of the model show that:

- Coefficients of variation Bad News (Bad News), low resistance (Earn vardv) at a significance level of 5% and systematic risk (β) at 10% significance level, and the coefficients are statistically not significant.

- Value and (R²) R-squared coefficient of determination of the model indicates that 36.5% of the variability in the cost of common stock (R) is explained by the independent variables and control.

- According to the sign of the estimated coefficients, the relationship between the dependent variable R with variables firm size, type of shares (value), prediction error, expected losses, the predicted standard deviation of earnings / total assets,

and risky stocks , in reverse order, and the remaining variables directly.

- Top of the F-statistic (2.76) indicates the significance of the regression analysis.

- Watson statistic camera model is assumed to be equal to 1.686 denies the correlation between model components.

Hypotheses of the research

First hypothesis: the relationship between the forecasts and the cost of equity capital is positive and significant.

According to the results of the estimated coefficients of the model predictions, the first hypothesis of this study that there is a positive correlation between the forecast and the cost of equity will not be accepted.

Second hypothesis: the bad news and there is a positive relationship between the cost of equity capital.

According to the results of the models estimated, the coefficient is positive and significant bad news. The second hypothesis is that there is a significant positive correlation between bad news and the cost of equity will be accepted.

Third hypothesis: the expected losses and the cost of equity is a positive relationship.

According to the results of the model estimated expected losses, second hypothesis is that there is a significant positive relationship between expected losses and the cost of equity will not be accepted.

Fourth hypothesis: the deviation of forecasts, forecast error and the cost of equity is a meaningful relationship.

According to the results of the estimated model coefficients, none of the variables are significant. The fourth research hypothesis that there is a significant correlation between the deviation of forecasts, forecast error and the cost of equity will not be accepted.

Fifth hypothesis: the prediction error and the cost of equity is a meaningful relationship.

According to the results of the estimated model coefficients, this variable is not significant. The fifth research hypothesis that there is a significant relationship between the prediction error and the cost of equity will not be accepted.

Sixth hypothesis: when the forecast horizon is negatively associated with cost of equity.

According to the results of the estimated model, the estimated coefficient for the time horizon of the forecast was positive but not significant. According to the eighth hypothesis that there is a negative relationship between the costs of equity will not be accepted.

Conclusions and recommendations

The overall goal of this study was to evaluate the effect of management earnings forecast characteristics on cost of common stock listed companies in Tehran Stock Exchange. Different results from different studies to address the impact of disclosure on the cost of common stock.

The findings are consistent with studies in Ottoman doctor because he studies PhD thesis in 2001, which claimed that disclosure leads to greater transparency of information, thus reducing risk and ultimately reduce the expected return on investment and reduce the cost of common stock. Other views were expressed at a level of disclosure, increased price volatility, risk, and increase the expected rate of return to investors and ultimately increase the cost shares of common stock. Now it becomes clear why

this study. The purpose of this study was to find this contradiction has finally arrived and it is anticipated that the potential offered by the management features and given the nature of their different impact on the cost of capital.

The transparency of information will be disclosed where disclosure is bad news for investors, but such losses are anticipated to be provided increase the risk and increase the expected rate of return to investors and thus increase the cost of capital. This study tests the hypothesis that reached statistical methods.

The overall result was that the mere offering of common stock will not decrease or increase prediction but various features incorporated within this disclosure will influence the final cost of capital, because the efficient market theory, efficient market, a market intelligence and investor information disclosures required by the internal content can be extracted.

The results of this study were obtained by Gholamreza Soleimani et al (2012), Salehi et al. (2012), Fang, at al., (2010), Yang (2008), Goda, at al., (2008).

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