
Implications of the cash component of earnings for earnings persistence and stock returns

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Profit and its components are information that individuals consider to measure profitability, ability to pay dividends, forecast future profits, and evaluate investment. Investors are seeking to achieve the quality of profit to predict future profits using one of the criteria for assessing the quality of profit, namely, profitability stability. The more profitability is sustained, the business unit has the potential to sustain current profits. The main factor that investors consider in their decisions is the rate of return. Stock returns are a set of benefits that are granted to ordinary shares during a period. The main purpose of investors is to make profits. Therefore, investments are made in sectors that are more profitable, that is, stocks with higher profitability and higher returns. The present study examines the data of 130 listed companies in Tehran Stock Exchange during the period of 2011-2011. It examines the use of cash components of profit for sustainability of earnings and stock returns. The results of the research show that the cash components of profit earned by companies are less stable in proportion to the cash components of profits distributed among the suppliers of capital. Also, companies with higher cash components than other companies have a price Stocks are higher. But there is no evidence to suggest that the cash components of profits distributed between stockholders are less consistent with those of the cash components distributed between lenders.

Keywords : cash component of earnings, stock returns, earnings persistence

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