An-Najah National University
Faculty of Graduate Studies

THE IMPACT OF INCOME SMOOTHING AND EARNINGS QUALITY ON THE VALUATION OF COMPANIES: A CASE OF PALESTINIAN COMPANIES

By
Fatheyeh Hakam Najar

Supervisor
Dr. Ra'fat Jallad

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This Thesis was Defended Successfully on 19/7/2022 and approved by

Dr. Ra'fat Jallad	
Supervisor	**Signature**
Dr. Fadi Shihadeh	
External Examiner	**Signature**
Dr. Mofeed Thaher	
Internal Examiner	**Signature**

Dedication

الحمد لله رب العالمين، والصلاة والسلام على سيّدنا محمد الصادق الوعد الأمين، اللهمّ لا علم لنا إلا ما علَّمتنا إنَّك أنت العليم الحكيم، اللهمّ علِّمنا ما ينفعنا، وانْفعنا بما علَّمتنا، وزِدنا علمًا.

أهدي تخرجي الى بؤرة النور التي عبرت بي نحو الأمل ، واتسعت اماله ان يحضن حلمي حين ضافت الدنيا ، فروض الصعاب من أجلي وسار في الدرب ليغرس معاني النور في طريقي، وعلمني معنى ان نعيش من أجل العلم لنظل أحياء حتى لو فارقت أرواحنا اجسادنا ، ولطالما تفطر قلبة وحنت عيناه شوقا ليراني حاملا شهادة الماجستير وها هي قد أينأت لأقدمها اليوم بين يديك. أبي الحبيب

الى من تتسابق الكلمات لتخرج معبرة عن مكنون ذاتها ، الى التي تمتهن الحب وتغزل الامل في قلبي ، فتبقى روحي مشرقة، طالما كانت دعواتها عنوان دربي. أمي الحبيبة.

الى عائلتي جميعا واخوتي الى زملائي في الدراسة الى جامعتي العزيزة والى كافة الكوادر التعليمية

الى مدينتي وأهلها التي أحببت جنين العزة والإباء

أقدم ثمرة سنواتي الدراسية سائلاً المولى عز وجل أن ينفع به وأن يجعله لوجهه الكريم

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Declaration

I, the undersigned, declare that I submitted the thesis entitled:

THE IMPACT OF INCOME SMOOTHING AND EARNINGS QUALITY ON THE VALUATION OF COMPANIES: A CASE OF PALESTINIAN COMPANIES

I declare that the work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

Student's Name: نتيجة حامد نجار

Signature: نتيجة نجار

Date: ٢٠٢٢/٧/١٩

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Abstract

This thesis investigates the effect of income smoothing and earnings quality on the valuation of companies listed in the Palestine Exchange market using annual data covering the period between Jan 2010 to Dec 2019. Income smoothing is qualified as reducing the fluctuations in the reported income within the accounting standards and is detected by the model of **Eckel (1981).** Managers have several motivates to smooth their reported incomes, for example, to optimize their bonus rewards. Panel analysis was used in this thesis. To achieve the objectives of this research, the researcher employed FGSL.

The results indicate that earnings quality as measured by timeliness is significantly negatively influencing TQ and ROE. However, earnings quality as measured by accruals is significantly positively influencing ROE. Income smoothing has been significantly positive with ROE.

Future studies on income smoothing and earnings quality may consider the financial sectors in the Palestine Exchange(PEX). Apply another method in measuring the variables of the study.

Key Words: Income Smoothing, Earnings Management, Persistence, Earnings Quality, Eckel Model , Palestine.

Chapter One
Introduction

1.1 Introduction

Financial markets play a crucial role in the business development process because published information representing the state of the market and the assets traded attract investors and accumulated savings and directs them to suitable investments to provide investors with the best available investment options, especially in an efficient market (Fama, 2004). Investors usually care about two things: the size of the profits, the higher is the better, and their sustainability. Therefore, the company's management seeks to make its profits sustainable, if the profits for this year are unusually high, it tries to smooth them for the need of future periods (Bao & Bao, 2004). However, administrators and economic units use accounting tools to improve their competitiveness in the market although this change is not real, whether for profitability or the financial situation, they exploit the gap in accounting methods and take the advantage of accounting alternatives in evaluation and disclosure to prepare financial statements. Companies usually resort to smooth its earnings for several reasons, including: avoiding losses and affect the quality of accounting information or reduce the deviation in income to keep the profit rate within certain limits or affect the tax rate due on them, and the most important goal is to gain the confidence of shareholders and bondholders (Al-Taie et al., 2017).

Earnings management is characterized by the concept of flexibilitym, it uses the flexibility provided by accounting standards to manipulate its earnings .This situation results in the management of the company not reporting the actual profits that occurred in a particular period. Since critics say that shareholders and other outside parties are misled by management about the company's actual financial condition, this manipulative aspect of the use of earnings management creates a questionable view of whether earnings management is morally justified (Skinner & Soltes 2011).

Earnings quality is an important factor in determining a business's financial health, but creditors, investors, and other financial statement users are not aware of it. The ability of reported income to reflect the company's actual income is referred to as earnings quality. Companies that manipulate their profits are considered companies with low

profit quality, as high quality companies adhere to generally accepted accounting principles standards and are reliable and sustainable. Earnings quality also refers to the persistence, stability, and consistency of reported earnings (Bellovwy & Don, 2005). Earning management is one of the factors that influence earnings quality. One of the earning management methods that have a direct impact on earnings quality is income smoothing (Sri KUSTONO et al., 2021). Income smoothing is a well-documented phenomenon. although it has been revealed to varying degrees in different measurements, the technique or approach evaluation used to identify the income smoothing companies has been a popular focus of discussion in previous income smoothing investigations (Mohamad,2001). Eckel in (1981) separates income smoothing as a natural smoothing and income smoothing that is intended smoothing.

This thesis is an extension of the prior literature focusing on income smoothing and earnings quality, especially in emerging economies. However, it enriches the literature by applying to companies listed on the Palestine Stock Exchange (services, industry, and investment sectors) where there is a difference in the environment that contribute to the lack of literature on this topic.

Investors' use of the company's financial statements depends on the management's behavior in preparing the financial statements and the way the company's performance is presented. It means that the administration has the freedom to choose the accounting methods in disclosing its financial statements to influence revenues and income to achieve profit stability and to motivate investors to invest in their company (Beneish, 2001). So, how does the smoothing and quality of earnings affect the valuation of companies listed on the Palestine Exchange? This thesis attempts to answer this question by investigating the effect of income smoothing and earnings quality on the valuation of companies listed on the Palestine Exchange. This thesis aims to fill the existing gap in the relationship between earnings quality and the value of the company. This thesis is unique and different by applying for the first time to the non-financial sectors of the Palestine Exchange (PEX).

This thesis is to examine whether the valuation of listed firms in the Palestine Stock Exchange is influenced by income smoothing practices and their quality of earnings.

1.2 Research Problem

The objective of preparing financial reports is to provide information about the firm's performance that contributes to making economic decisions for stakeholders such as suppliers, investors, creditors, and managers (Nyaruwata,2018). The quality of profits must be studied in terms of the interests of shareholders, and this issue raises the consideration of income smoothing and management of the quality of profits, and whether this position of managers serves the interests of investors. Additionally, how does this earnings management affect the company's valuation? It is believed that the more sustainable the profits the higher the quality.

One of the most determinants of investing in the financial markets in developing countries is the quality of financial reports, which consider a constraint for global investment funds to invest in Palestine. Because of its importance in representing a real expression of the company's earnings and thus the ability to predict the company's future performance.

In Palestine, there is a scarcity of studies on the effect of income smoothing and earnings quality on corporate performance. This thesis attempts to fill this gap and determine whether the company's valuation can be affected by income smoothing and earnings quality.

1.3 Research Questions

This thesis aims to answer the following two main questions:

Q1. What is the impact of earnings quality on the valuation of firms listed in Palestine Exchange (PEX)?

This question is decomposed in a number of sub questions as follows:

Q1.1. What is the effect of accruals quality on the valuation of firms listed in Palestine Exchange (PEX)?

Q1.2. What is the effect of timeliness of earnings on the valuation of firms listed in Palestine Exchange (PEX)?

Q1.3. What is the effect of persistence of earnings on the valuation of firms listed in Palestine Exchange (PEX)?

Q2. What is the impact of income smoothing on the valuation of firms listed in Palestine Exchange (PEX)?

1.4 Research Objectives

This thesis aims at identifying the phenomenon of income smoothing degree and earnings quality of companies listed on the Palestine Exchange (PEX) from 2010 to 2019 and offering distinct contributions to the existing literature in terms of income smoothing throughout several aspects. First, this thesis aims to fill the scarcity of studies on the effect of income smoothing and earnings quality on the valuation of companies by applying the first empirical study to companies listed on the Palestine Exchange (PEX). Second, this thesis aims to reveal the potential relationship between income smoothing and earnings quality and its impact on the valuation of firms listed on the Palestine Exchange (PEX).

1.5 Research Significance

This research is unique and different from other studies for the following reasons.

First: The Environment

There is a difference in the environment, whether legally or financially, as this research was applied to the companies listed on the Palestine Stock Exchange for the first time (services, industry, and investment).

Second: Investment

Increase shareholder confidence in the stock market by clarifying standards of quality and accuracy, saving efforts, cost, and timeliness of financial statements.

Third: Regulators

It will be beneficial for decision-makers, regulators, and authorities such as the Palestinian Capital Market Authority (PCMA) to maintain the integrity of the financial reporting system and legislative laws related to the financial aspects that attract foreign investment such as compliance with international accounting standards and electronic disclosure of investment-related sectors to maintain the quality of profits .

This thesis is organized as follows. In the next chapter, discussing the literature review including the concepts and relationships between variables of research, the third chapter shows the research methodology and the method of measuring variables, the fourth chapter includes statistical tests to examine the relationship between the variables, and the final chapter discusses the results and recommendations of the research.

Chapter Tow
Literature Review

2.1 Theoretical Framework

2.1.1 Earnings Management

Earnings management occurs when management uses its reporting judgment to deceive some stakeholders about the company's performance or to impact results that rely on reported accounting information (Zarowin, 2002). There are variety of ways to management the earnings. Income smoothing is one of the most important tools that aims to reduce fluctuation over the time (Eckel ,1981). Although most researchers tend to show the negative side of earnings management, some have taken the opposite position and describe them as legally and acceptable measures, which, when used, for example, within the income smoothing method, aim to achieve an element of the relative stability of earnings that makes them predictable. Ronen and Yasser (2008) take a middle ground between the two previous viewpoints, believing that the impact of earnings management can be beneficial if viewed as offering stakeholders and owners and with an indication of the firm's long-term performance, even if it is hidden short-term performance.

The process of earnings management practice aims at mislead the stakeholders about the economic performance of a company, make financial reports more informative to the users by choosing between different accounting alternatives and using personal estimates, concealing poor financial performance, postponing the current unexpected profits to future years, and enhancing the performance of the enterprise for the period The current rate by increasing the established positive profit number (Ronen & Sadan,1975).

It is necessary to discuss aspects of the earnings management modeled by Beidleman (1973).

A. Beneficial

This indicates that the information in the financial statement is more transparent. Where the company's management takes the advantage of the flexibility of accounting methods to affect financial reports. When the firm's profits increase unusually in the current year,

the company transfers part of it and postpones for the need of the next period. This makes the company's profits more sustainable, which makes the investor more confident in the company's performance because the information risk is reduced.

B. Pernicious

Financial reports do not truly represent the company's performance, management is misleading stakeholders by using unethical methods and influencing its decisions. It may contribute to minimizing firm value. For example, a company decides to buy a car for $200,000 and asks the company to take it over next year. Next year, management cancels the purchase. In this case, the company benefits by recording it as a cost in the year of purchase and reducing the profits for that period by $200,000.

Tools of Earnings Management

Management employs a variety of strategies and instruments to manage its earnings, these methods are as follows.

A. Change of Accounting Methods and Policies

It is a change of financial information calculation to present its financial statement, where the company selects among the permitted accounting methods, this tool is considered the most common, it usually choose what is commensurate with its goals, which will achieve the target level of profits as it affects the timing and values of revenues and expenses that are recognized during the accounting period, and consequently on the earnings of that period, for example, a change from FIFO to LIFO or FIFO to weighted average method (Ronen & Sadan,1975)

B. Change of Accounting Estimation

Change in actual financial information such as provisions and reserved to achieve temporary or current benefits, for example, changing the depreciable life of a material asset. These changes play on the time factor, and their effects are reflected on the timing of recording and monitoring the impact in the financial statements, as well as a revenue burden. The objective of the provision form is to allocate unrecognized risks (Kieso et al., 2019).

C. Change in Items Classification

It influences the income reported and decrease unanticipated deviation from unusual item regular transactions of the business. For example, the company purchased equipment with a value of $1,000,000. It has two options to record this process. The first one record it as an expense in the income statement, thus reducing the profits for that year by $1,000,000, or record it as an asset that is depreciated over 5 years, so the share of that year is $200,000, and this increases the profits of that period by $800,000 (Fudenberg & Tirole, 1995).

D. Timing of Sales Investments

Controlling the individual operations ; especially the investment and their timing in a way that serves to show the numbers in a way that benefits the administration. Its clear example is maintaining an investment portfolio with profitable and losing items, on-demand, as the company sells part of its successful investment in case it needs to increase revenues, and gets rid of the losing investment at the moment it needs to reduce revenues, even though the company does not work primarily in the field of investments (Godwin, 1977).

E. Income Smoothing

Tools used by management to shift a portion of the profit earned in a high-volatility year to a low-volatility year to minimize variations in the periodic profit amount (Eckel, 1981).

After understanding the terms of earnings management, the scenario in which earnings management is likely to occur will be studied. The signaling earnings management theory, agency theory, and efficient market theory all assist in explaining the use of earnings management.

2.1.2 Signaling of Earnings Management Theory

The signaling theory of management states how managers can send signals to investors indirectly that show the company's future ability to rely on this information about future cash flows, it can provide information that indicates signals of success or failure in firm operations. Depending on the content of the management information, this signal might have positive or negative implications (Huang, 2013).

According to proponents of the signaling theory, managers management the earnings to transmit inside information about a company's future performance therefore, it acts as a signaling mechanism. Managers may have the ability to influence stock prices, through earnings management. Earnings management can serve as a signal mechanism for management to disclose inside information about the company to investors (Sun & Rath, 2008). Moreover, managers would prefer to present a smoother profits stream to signal the consistency of the company's underlying profits process. As a result, creditors reduce their assessment of the likelihood of the company's insolvency, increasing the firm's worth. When manager fails to satisfy investors' expectations is viewed as an indication of underlying problems in the business, which the company would be heavily punished (Trueman & Titman, 1988). Hejazi et al., (2011) discovered that managers are ready to sacrifice long-term value to fulfill earnings expectations.

2.1.3 Agency Theory

The agency theory is reorganized as a result of the separation of ownership and management in public businesses, in which the managers act as the agents and the stakeholders are the principals. This agency relationship is defined as a contract in which the principals employ the agent to execute service on their behalf, which includes delegating certain decision-making authority to the agent. This theory assumed the existence of efficient markets and contracts. Furthermore, managers only care about their interests and so do not always behave in the best interests of the principals. Contracts will prohibit managers from preferring their interests over the interests of stakeholders (Yueng,2009).

Jensen and Meckling (1976) recognized agency problems such as moral hazards: shirking problems and adverse selection. Adverse selection is adopting accounting decisions that maximized reported revenue in order to receive a greater bonus. The shirking problem arose from the principal capacity to directly observe the manager's work, and the principal can only judge a manager's performance based on the result presented through the annual report (Zhai and Wang, 2016). Vasiljević (2009) asserted that agency theory proposes strategies for lowering agency costs, which can take the shape of incentive programs for managers and the installation of control measures (e.g., management control system). Compensation and benefits programs are regarded as critical in reducing the conflict of interest between owners and shareholders .

Panda and Leepsa (2017) argued that strict accounting principles restrict the manager's ability to act in an opportunistic manner that does not serve the interests of the company's owners or investors, so the greater the flexibility in accounting methods, the greater the manager's ability to use his discretion and engage in earnings management activities and manipulate the reported accounting information.

2.1.4 Income Smoothing

Income smoothing defined as the set of tools to reduce the fluctuations in the earnings is considered normal for the company under the principles of accounting and management (Beidleman, 1973).

Smoothing refers to profit adjustments that occur over two or more consecutive periods, and identifying them requires data analysis for at least three periods; while a two-year comparison may show that the second period's profit increased or decreased, it is insufficient for identifying a behavior pattern in any one company (Copeland, 1968).

2.1.4.1 Motives of Income Smoothing

There are many motives behind income smoothing, according to the context of most of the previous studies, which were divided into the following groups:

A. Motives Related to Contracts

- Management reward contracts: Although management's official mission is to maximize shareholders' wealth, it may have personal motives that differ from those related to achieving the basic objective of the company that drives it to make decisions and actions that affect it. In the event that the actual earnings are above the limit, the management’s motive is to reduce the current period's earnings to guarantee the continuity of the reward over the next period. However, if the actual earnings are less than the minimum limit, the motive of management is to increase the earnings of the current period at the expense of subsequent periods to ensure obtaining rewards in the current period (Hejazi et al.,2011).
- Debts Covenants: Contracts between lenders and the company under which covenants are placed on management actions to reduce the agency problem between the shareholder and debtholder. Breach of covenants set into the agreements is one of the main motives for the exercise of income smoothing

through choosing accounting methods and policies that increase the benefit of shareholders without prejudice to the terms of debt contracts (Saringat et al.,2013).

- Work contracts: management try to reduce any proposed increases in wages. Most companies conclude contracts with workers based on a fixed wage and a reward determined based on a percentage of the earnings. Therefore, any sharp increase in the declared earnings would motivate the workers to demand raise in their salaries. Management tries to adopt income smoothing practices, to show the stability of earnings to prevent any labor claims (Saringat et al.,2013).

B. Motives Related to Financial Markets

Companies aim to send positive signals to the market about their current performance by disclosing positive financial reports that boost their market prices. Therefore, companies smooth their income to reflect positive prospects about their future profitability and would influence analysts' and investors' estimates of the riskiness of future cash flow (Emad et al.,2020).

2.1.4.2. Empirical Methods of Income Smoothing

Copeland (1968) states that there are several methods have been used to empirically measure the practices used by management to smooth their income. These methods include: interviewing, questioners, and observation. However, he indicates that the application of the above methods is difficult. He mentions a second procedure that based on contacting third parties, such as CPAs, who are familiar with the procedure used by management. In addition, a third approach proposed by him that is based on the financial statements and reports.

2.1.4.3. Classification of Income Smoothing

Two main classifications of income smoothing have been cited by (Bao & Bao,2004), (Akbari etal.,2018), (Susanto& Pradipta,2019), and (Abogun etal.,2021)

A. Natural smoothing

It is smooth that results from the natural process of generating profits in the company without having any unnatural influence on it, for example, electricity companies (Hejazi et al., 2011).

B. Intended smoothing

This type also named management smoothing can be broken into artificial and real:

Artificial: manipulations by management to smooth the income to affect cash flow indirectly but shift the cost and/or income from one period to the next. Management can time actual transactions so that their effect on reported profit is controllable. This reflects the represented in the management's manipulation in the timing of income recognition by exploiting the flexibility available in the generally accepted accounting principles (Al Baaj et al.,2018).

Real: It results from real business exchanges and operational decisions that require certain expenses to produce certain profits, and are implemented by management to reduce the volatility of cash flows (Etemadi & Sepasi,2008).

2.1.5 Earnings Quality

Higher quality earnings more faithfully represent the character of the firm's fundamental earnings process relevant to a specific decision. Because the relevant features of the firm's fundamental earnings process differ across decisions and decision-makers, our definition implies that the concept earnings quality is meaningless without specifying the decision context (Dechow etal., 2010). Accounting researchers continue to use the descriptor quality to refer to earnings' decision-usefulness in equity market valuation. Nonetheless, the term has been applied to other contexts, most likely as a result of our conversational understanding of quality as an indication of superiority or excellence. This progression of a term like earnings quality to its current state of ambiguity is not unusual (Bellovwy& Don, 2005).

The concept of earnings quality varies according to users' perspective of financial statements and their goals.

From the perspective of accounting standards setters and auditors company quality of earnings can be achieved when they closely stick to generally accepted accounting principles (Dechow&Schrand, 2004).

From the perspective of creditors, the quality of earnings is related to converting them into cash flows that are sufficient to cover the firm's obligations towards them (Bellovwy& Don, 2005).

From the analyses' perspective, it has been defined as the ability of earnings to describe the operating performance of the company, where the information is accurate, arrives on time, can persist itself into the next period, and is free from earnings management practices (Bao & Bao,2004).

We found that there are different views of researchers about the characteristics that must be available in quality of earnings. According to previous studies, it was shown that the most consistent earnings quality characteristics is derived from the following:

2.1.5.1 Timeliness

Measure the ability of earnings to calculate changes in economic value by integrating all information in the market on time from a variety of sources(up to the second data) (Dichev etal .,2012).

Ensuring the timelines of processing requires the ability to collect, transfer, process, and present the stream data in real time, can be measured as the time between when information is expected and when its available for use . Information that is not timely can lead to people making the wrong decision (Ball&Shivakumar,2005).

2.1.5.2 Persistence

It is define as the ability of current earnings to predict the future earnings , where the value of each share of the company's shares does not depend entirely on the company's current earnings. However, it depends on this company's expected profitability and reliability based on these profits (Francis et al. 2008).

2.1.5.3 Accruals

Dichev & Dechow (2002) developed the first model for measuring the quality of earnings using the quality of accruals non-cash expenses and revenues recorded in the financial period regardless the time of exchange or receipt. The accrual estimation process is the core of financial reporting, the basic logic is that accruals will be converted into cash flows. Since it must be made within generally accepted accounting

principles (GAAP), and specialists are consulted for estimates, the correct estimation of accruals will help increase investor confidence in your financial statements, where accruals are highly associated with future earnings performance (Hejazi et al.,2011), Since accruals are based on certain estimates, incorrect estimates of expenses and revenues reduce the benefit accrued from the accrual process (Lyimo,2014).

2.1.6 Factors Affecting Earnings Quality

Previous literature examine the factors affecting the quality of earnings that would increase or decrease the quality of earnings according to their direction and degree of impact. The main 6 factors are as follows:

A. The Quality of Accounting Standards: the strictness and stress on companies to use standards will reduce the exploitation of gaps in the accounting principles, which increases the earnings quality (Ewert & Wagenhofer, 2013).

B. Differences in Accounting Standard: there is a difference between local and international standards in preparing financial reports to represent an important factor in influencing the quality of earnings because the companies that follow international accounting, especially the International Financial Reporting Standards (IFRS), raises the level of the quality of earnings (Barth etal., 2008).

C. Shareholder Composition: The quality of earnings increases in companies with a higher percentage of members independent board of directors because earnings management practices are lower in companies with a higher percentage of independent members of the board of directors, which enhances the quality of earnings (Alves, 2014).

D. Shareholder Control: in certain socialist nations, the state controls a percentage of a company's shares to decrease the percentage of shareholder ownership less than 50% and affects the quality of earnings in these firms (Ramadan, 2015).

E. The Effect of Board of Directors Members on the Quality of Earnings: the more members of board of directors, the more manipulation of the financial statements, which reduces the quality of earnings (Ramadan, 2015).

F. The Impact of the Audit Committee on the Quality of Earnings: the more meetings of the audit committee, the higher the quality earnings, and this means that forming an audit committee and increasing its members would improve the quality of earnings (Lin,2006).

2.1.7 Importance of Earnings Quality

The importance of earnings quality increased in the 1990s when the US Securities and Exchange Commission discovered the manipulation by managers and auditors. These committees accused managers of focusing on managing opportunistic earnings to meet the expectations of the capital market. Managers had several motives, including increasing interest in evaluating companies through their performance in the financial market, increasing the company's value in the market, job security for managers in addition to their compensation, and showing the company's earnings more than reality, it gives a good picture of company's performance (Bellovwy& Don,2005).

2.1.8 Earnings Quality and Income Smoothing

Earnings management can enhance the quality of earnings, improving the quality of earnings can make information about income for the current period more valuable in forecasting future earnings; one earnings management measure that may have an effect on the persistence of earnings is income smoothing (Sri KUSTONO et al.,2021). Income smoothing enhance earnings information content if managers employ their judgment to express their evaluation of future earnings, whereas income smoothing allows users of financial statements to anticipate future earnings based on current earnings information (Susanto&Pradipta,2019). The impact of income smoothing on earnings persistence is explained by the fact that income smoothing decreases earnings volatility between periods. Income smoothing can make a profit, whereas past earnings are more useful by communicating future earnings (Ariamand&Ebrahimi,2020).

2.1.9 Business Valuation

The method of estimating the economic value, establishing the company's current value using objective criteria, and evaluating all business areas is known as company valuation. A company valuation may include examining the company's management, financial structure, and expected earnings in the future (Gordon,1962).

There are various methods and tools for measuring and evaluating business value. The market price is one of the most important elements that reflect the company's potential to generate cash flow and the most important methods measure the performance as well as the risk associated with achieving the predicted cash flow because it considers the long-term interests of shareholders in a company (Susanto& Pradipta,2019).

Profitability and growth determine the firm's value. The value of the company is influenced by financial strategy and its product market. The financial market strategy is implemented by dividend policies and financing, whereas the product market strategy is implemented through the firm's competitive strategy, operational policies, and investment decisions. As a going concern, there are three main valuation approaches:

2.1.9.1 Income Approach

A business valuation expert resorts to this approach when it is difficult to obtain reliable data from the market; the income approach evaluates a business by converting the expected economic benefits into a single current amount. This method is powerful and effective because it does not depend on any previous similar transactions in the market. However, since the value used is very sensitive to estimates of growth rate and required rate of return, these inputs must be valid.

The methods vary in income approach but usually fall into one of two categories:

A. Capitalization of Earnings or Free Cash Flow

By calculating the net present value (NPV) of expected future earnings or cash flows. This estimate is determined by taking the entity's future earnings and dividing them by the capitalization rate.

B. Discounted Cash Flow (DCF)

The total value of a business is the present value of its expected future earnings plus the present value of its terminal value. In this process, the expected cash flow of the business over some time in the future is first projected. Then, each separate cash flow is discounted to its present value at a rate that reflects the risk of receiving that amount at the time expected in the projection. Such forecasts are best represented by capital expenditures, operating costs, revenue, and working capital **(Pastor et al., 2007).**

2.1.9.2 Market Approach

The market method is focused on the principle of comparing the business sales of the company with a similar company in the same business, this might result in a company being undervalued or overpriced. It is useful when evaluating public companies because their data is easily available. This approach includes many methods, including the indicative method of the public company, this method takes into account the market value of the stocks of the public company Comparable or the so-called guideline by calculating the pricing multiplier by dividing the price of a similar share by an economic variable and the second method is the Merger and Acquisition (M&A) method. The expert in this case establishes pricing multiples based on real-world transactions involving comparable full firms or operating units sold. These price multiples are then applied to the subject company's economic factors, such as net income (Miciuła et al., 2020).

2.1.9.3 Asset Approach

This method depend on the total fair market value of the company's assets (FMV). The value generated by this approach is called the "level of control", which expresses the value of the owner who has the power to sell or liquidate the company's assets. If this approach is used to value minority interests, it is appropriate to obtain a discount due to lack of control (DLOC), which is widely used for holding companies and asset-intensive and troubled companies. This approach also incorporates the book value and adjusted net asset methods. The disadvantage is the failure to account for unrecorded intangible assets and the reliance on historical costs rather than the current fair market value. The adjusted net asset method converts the book values to fair market value and accounts for all intangible assets and liabilities (Moody & Walsh, 1999).

2.1.10 Relationship between Earnings Quality and Value of the Company

Earnings are the focus of attention for stakeholders in the financial markets, especially investors and analysts. Ball & Brown (1968) discovered an important relationship between profits and returns; it became difficult to ignore the importance of profit quality in trading.

Francis et al. (2008) explain that earnings are the main source of information due to indicating future cash flows. Therefore, it is necessary to identify the main features of

the quality of earnings because stakeholders will judge the company's performance on its basis. A measure of earnings quality is based on three earnings attributes (persistence, timing, and accrual quality). The purpose of the presentation of financial statements should provide useful signals to users in making their decisions, which are related to sustainability and timeliness, which means more permanent and transitional earnings so that users of financial statements can view them as high-quality earnings as well as accrual quality which is a good proxy for earnings quality. Financial reporting is strictly defined as "To be reliable, information must faithfully represent the transactions and operational performance of the company on time (Lyimo, 2014).

2.1.11 Efficient Market Theory

The Efficient Market is a hypothesis in financial-economic states that the asset prices reflect all available information. Economic researcher Eugene Fama developed an efficient market in 1970 (Timmermann & Granger, 2004). The efficient market hypothesis (EMH) states that "capital markets respond to publicly available information efficiently and fairly." Because the stock market is so competitive, it is expected that new public information will be reflected in share prices immediately. To support this argument, assumptions about the present value of future cash flows involving that share determine the share price. When these beliefs change (due to the disclosure of public information), the expectation is that share prices will also change (Malkiel, 1989). According to Fama (1970), the efficient market hypothesis states that the stock price represents all available information, and investors will not be able to outperform the market. (Fama,1970). The EMH assumes that EM enhances decision-making and internal control, such as lowering taxes, monitoring managers, decreasing opportunism, and lowering contracting costs. Investors are rational, and they can lend and borrow simultaneously; information must be quickly and free to flow. Market anomalies should not exist since they will be arbitraged instantly.

The EMH has three forms: First, there is a weak form in which current stock prices fully reflect all previous information, implying that past data cannot be utilized to forecast future prices. Second, semi-strong in which the current price quickly reflects all publicly available information (historical and current). Third, in this form, the price completely represents all accessible information, whether publicly available or not (Malkiel, 1989).

Financial markets are an important body in any economic sector around the world, which requires the need for scientific methods to evaluate investments, reduce uncertainty, and encourage investors to make an investment decision because investing in stocks is not easy due to the difficulty of estimating the return (Bartholdy, 2005). When making investment evaluations and decisions, it is critical to estimate the expected return and stock price. Investors and financial managers want to reduce their risk when investing in a stock. These problems have recently been solved by using financial tools to determine the future orientation of an investment. Modern finance theory has offered several insights into how stock prices are established, as has a quantitative description of the risk structure of equilibrium expected returns (Merton, 1980). Fundamental analysis has been the primary instrument used by financial market operators in evaluating the value of listed companies. It is well known that the goal of fundamental analysis is to define ideal portfolio strategies through macroeconomic and microeconomic indicators. Fundamental analysis evaluates the value of securities using publicly available data (such as bonds and stocks); an investor can use fundamental analysis on a bond's value by looking at an interest rate. For the stocks, investors can use earnings, future growth, and return on equity to determine a company's value and potential for future growth (Campanella et al., 2016).

2.1.12 Relationship between Income Smoothing and Value of the Company

There is no clear correlation between income smoothing behavior and its effect on company value in many cases. Over time, the strategies used in profitability, contracts, management style, financing, and lending options vary, which changes this effect from positive to negative. However, GAAP gives management flexibility when reporting information and choosing an accounting method to use within legal and ethical boundaries and considers all outcome decisions (Anwar & Chandra, 2017).

Management needs to review these options based on the current and future business and legal environment and ensure that the measures are intended for the benefit of the economic unit and stakeholders as a whole and that they are within legal and ethical limits. The management must maneuver within legal and ethical boundaries and refrain from adopting a strategy that can systematically impair the quality of financial statements and the treatment of accounting information. Members of the Board of Directors must thoroughly review strategies before they are adopted (Beneish, 2001).

Income smoothing is not necessarily a harmful practice, but it is a logical result of the flexibility of the generally accepted accounting standards in the preparation and presentation of financial statements. Therefore, the management should, when choosing among the various accounting policies and implementing the practices available in the generally accepted accounting standards, make sure that it is within the legal and ethical limits. It achieves the interest of the economic unit and all relevant parties (Skinner & Soltes, 2011).

From the previous, concluding that another element must be considered when applying income smoothing, which is the quality of earnings. The quality of earnings very essential when examining the relationship between income smoothing and company value. It may make sense for a firm to consider the quality of its earnings first before diluting its income because smoothing income with low quality seems irrational. Income smoothing is profitable only if the earnings are of high quality. Good management has the ability and skill to facilitate income without causing harm to any party, which means income smoothing is the intelligence of management (ASAOLU et al., 2021).

2.2 Previous Research

After studying literature relating to income smoothing in general, it is important to discover the impacts of income smoothing on company value. Section (2.2.1) contain researches that have a positive impact on income smoothing on the company's value. Section (2.2.2) describes the negative impact of income smoothing on firm value. Previous studies indicate that using the change in earnings as a descriptor of income smoothing may not give a definitive answer to its impact on the value of the company. The possible remedy is also to look at the quality of earnings. The term of earnings quality has been widely used without a standard concept. However, the purpose of explaining the earnings summary is to enable investors and decision-makers to evaluate the source and potential repeatability of net income. Section (2.2.3) describes researches that have a positive impact on firm value. Next, the negative impact of earnings quality on firm value describes in section (2.2.4).

2.2.1 Income Smoothing Improve Firm Value

This section discusses researches that indicates the existence of a positive impact of income smoothing on firm value.

Susanto & Pradipta (2019) explore a significant positive relationship between company value measured (by P/E) ratio and income smoothing as measured (by the Eckel model). By applying among manufacturing companies in the Indonesia Stock Exchange from 2014 to 2016, they conclude that income smoothing practices enable the use of company information on a large scale which helps investors to predict future profits and lowering the risk associated with it. This makes it meet the needs of investors' interests and attractive to them, thus increasing the demand for its shares and raising their price, and consequently, the value of the company.

Michelson et al. (2000) conduct another research to evaluate the association between income smoothing and return in the S&P 500; the Eckel model is used to detects income smoothing. They discover that firms that report smoother income have considerably greater cumulative abnormal returns than those that do not. As the standards of becoming an income smoother grow more difficult to meet, this conclusion becomes stronger. When the firms' size consider, the anomalous returns become greater for smaller enterprises and weaker for bigger firms.

Shubita (2015) study the effect of income smoothing in the Saudi market from 1999-2008, the results indicate that there is a positive impact of income smoothing on the earnings quality, which means that when a company smoothes its income, they show the ability to reflect firm future performance, and its ability to generate revenues.

OBEIDAT (2021) find a positive and significant relationship between income smoothing and profitability of firms listed on the Amman Stock Exchange from 2010 to 2019. Where the study applies the Eckel model to reveal income smoothing practice, and ROE to measure profitability and total asset in determining the size of firms. They conclude that the companies try to retain their investors by engaging in income smoothing to meet the desire of investors about the return which will enhance them to invest in these companies.

Tucker & Zarowin (2006) examine whether firms that smooth their income improve the informativeness of earnings from 1993 to 2000. They conclude that companies that smooth their income are more probability to impound their future earnings than lower smoothing firms, and the current price stock of these firms have high informative about their future earnings, which helps to analyze cash flow, accrual, future growth that helps to reduce future earnings fluctuation. If the managers use their discretion to communicate their prediction of future earnings they will improve their in formativeness.

Sri KUSTONO et al (2021) investigate income smoothing practices in the Indonesian market, they use kustono (2011) to investigate income smoothing practices from 2013-2019. They conclude that the manager uses the power of multiple-choice accounting to affect investors' views and decisions, where investor are more interested in companies with lower earnings fluctuation, these results add to the evidence that income smoothing is more concerned with its possibilities for generating earnings.

The research of Bitner and Dolan (1996) provides evidence for a favorable link between income smoothing and equities market value. They find several motivations to practice income smoothing which are connected to minimizing political costs, capital costs, and maximizing managers' remuneration schemes. Trueman and Titman (1988) emphasize that the company's managers will manage profitability to provide future debt holders with secure revenue streams. As a result, the needed return of the loan holders is reduced, resulting in a decreased cost of capital for the firm.

2.2.2 Income Smoothing Diminish Firm Value

This section focus on the negative relationship between income smoothing and firm value.

Abogun et al (2021) reveal a negative and significant impact of income smoothing as measured by Tucker and Zarown (2006) on firm value as measured by average share price and using market risk as a moderator in all listed firms on the Nigeria Stock Exchange from 2012 to 2018, they excluded the financial sectors. The study discovers that market risk significantly defines the relationship between income smoothing and firm value. When firms smooth income, their mean annualized return is much lower than when they do not smooth revenue. This conclusion becomes stronger when the standards of becoming an income smoother grow more challenging to meet. Smoothing companies have lower returns, reduced risk, and large size.

Mohamad (2001) examine the effect of income smoothing in the Malaysian market by using a sample of 231 companies from 1990 to 1998. The study applies the Eckel model to reveal the income smoothing practice, and the P/E ratio to measure profitability. The study finds that the companies with higher earnings and a greater level of debt have a lower tendency to smooth their income, this indicates that the managers have high motivation to smooth income during the economic crises period to control fluctuation in reported income

Michelson et al., (1995) examine a sample of 358 firms in the S&P 500. In measuring the performance in the marketplace, he used data that contained stock price, return for each stock, and the total number of outstanding shares. The study reveals that smoothing companies have lower annual returns than companies which do not smooth. They also find that smoothing companies have lower beta, which means that income

smoothing decrease the actual or perceived risk of the company, which leads to decreased returns for that investor in the lower risk company.

Nurdiansyah et al., (2021) apply a study on companies listed on the Indonesia stock exchange from 2015 to 2017. The results showed a negative and significant impact on profitability as measured by ROA and income smoothing, which means lower profitability is not attracting investors' attention.

2.2.3 Earnings Quality Improve Firm Value

Saleh et al., (2020) explore the earnings quality effect of companies' performance, using a sample of Jordanian companies from 2010 to 2018, the result indicates that earnings quality positively affects ROE, which means that good management behavior will lead to an increase in firm performance and will lead to high decision maker protection, where the information seems less ambiguity, this will help to capture useful information.

DANG et al., (2020) examine the effect of earnings quality on the value of firms listed on the Vietnam Stock Exchange within the period from 2010 to 2018. They reveal that earnings quality as measured by persistence, earnings management, and timeliness positively affect Tobin's Q, which means that the accounting system is generally able to reflect the economic value of the firms valued by the market.

Annes & Domingos (2016) examine the relationship between earnings quality and firm performance in the Lisbon stock exchange from 1987 to 2016. They reveal that persistence only statistically affected the company value, which is considered a good item, and is desirable by an investor to capture profit sustainability.

Bao and Bao (2004) research this issue differently to examine the influence of income smoothing on company value, they introduce earnings quality as an explanatory variable. They conclude that companies with high earnings quality outperform firms with low earnings quality. As a result, the quality of earnings appears to have a favorable impact on company value.

2.2.4 Earnings Quality Diminish Firm Value

Hutagaol-Martowidjojo et al., (2019) explore the relationship between earnings quality and Tobin's Q as the mean of company value from 1995 to 2015. The finding indicates a negative effect on the Indonesian stock market. Quality standards decline over time and companies that pay dividends and have high-risk stocks are evaluated as a high value. Following the international Financial Reporting and standards (IFRS) does not automatically lead to an increase in the quality of the reporting process. The dividends take the role of evaluation rather than the quality of earnings..

Latif et al., (2017) explore a negative relationship between smoothing and persistence with Tobin's Q of non-financial Pakistan company within the period 2003-2014, where both are considered managerial opportunistic toward the alternative of accounting standard. All earnings attributes (predictability, accrual, value relevance) positively impact Tobin's Q, where the increase in EQ attributes leads to decreasing information asymmetry and incorrect reporting to the stakeholder. Because of a reduction in information risk, stakeholders are more confident in purchasing such companies' stock driving up the firm market value.

2.2.5 The Association between Earnings Quality and Income Smoothing on Firm Value

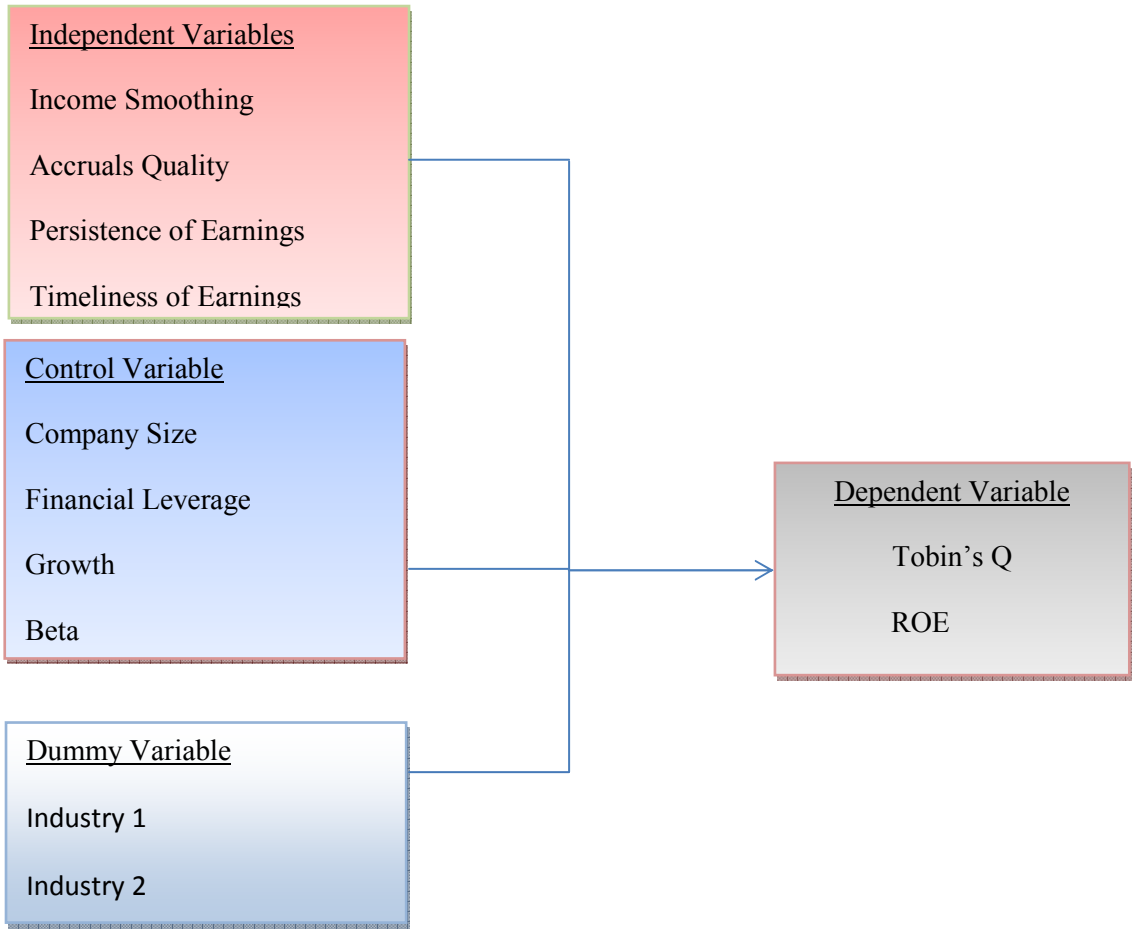
Based on the above arguments, it is reasonable to conclude that when analyzing the link between income smoothing and firm value, earnings quality is critical. Before smoothing results, a corporation should assess the quality of its earnings, because smoothing earnings with low quality looks to make little sense. Income smoothing is beneficial to corporate value only if the earnings are of high quality **(Bao & Bao,2004).**

2.3 Conceptual Model

Figure (1) presents the conceptual framework of the study, where the elements of the study are articulated

Figure (1)

Conceptual Model



2.4 Hypothesis Development

H1: There is a significant relationship between income smoothing and the value of companies listed on the Palestine Exchange (PEX).

H2: There is a significant relationship between accruals quality and the value of companies listed on the Palestine Exchange (PEX).

H3: There is a significant relationship between persistence of earnings and the value of companies listed on the Palestine Exchange (PEX).

H4: There is a significant relationship between timeliness of earnings and the value of companies listed on the Palestine Exchange (PEX).

Chapter Three
Methodology

3.1 Population and Sample

The population of this thesis includes all the listed companies in Palestine Exchange which are 48 companies as of December 2019. Except financial companies(Banks and Insurance). These companies have been excluded because they have their accounting system and different evaluation tools (Etemadi & Sepasi,2008).

The sample of the thesis includes (30) publicly listed companies across three sectors namely: services, industry, and investment. Appendix (A) highlights publicly listed company across three sectors

Table (1) illustrates the distribution of the sample across the sectors, The service sector has the largest market capitalization among the sectors. Followed by the investment and industry sectors.

Table (1)

Market Capitalization (as of December 2019) Across Sectors

Sector	NO.	Market Capitalization($)	Percentage
Services	9	1,208,616,406	50.37%
Industry	12	395,646,434	16.49%
Investment	9	795,044,644	33.14%
Total	30	2399307484	100%

3.2. Data Collection

Secondary data are gathered from the financial statements of the sample posted on the Palestine Exchange (PEX) website. The sample period extends from (2010-2019). The years 2020 and 2021 were not included because the researcher's goal is to show results without the impact of Covid-19

3.3 Econometric Model

The collected data are analyzed using the FGLS Panel regression method, and utilizing the STATA program. Two models have been estimated to answer the research question as follows.

$$\textbf{Tobin's Q} = \beta_{0it} + \beta_1 PS_{it} + \beta_2 ACC_{it} + \beta_3 T_{it} + \beta_4 SM_{it} + \beta_5 SI_{it} + \beta_6 LV_{it} + \beta_7 G_{it} + \beta_8 B_{it} + \beta_9 I1_{it} + \beta_{10} I2_{it} + \varepsilon_{it}$$

$$\textbf{ROE} = \beta_{0it} + \beta_1 PS_{it} + \beta_2 ACC_{it} + \beta_3 T_{it} + \beta_4 SM_{it} + \beta_5 SI_{it} + \beta_6 LV_{it} + \beta_7 G_{it} + \beta_8 B_{it} + \beta_9 I1_{it} + \beta_{10} I2_{it} + \varepsilon_{it}$$

3.4 Variables of the study

Appendix (C) shows the variables and measurements used in this thesis.

3.4.1 Dependent Variables

Company Value

Company value is defined as the total value of outstanding shares in the financial market (Merz & Yashiv, 2007). There are various measures available to gauge the value of a company. Tobin's Q and ROE are used as valuation criteria. It's worth mentioning that the only stock issued on Palestine Exchange is common stock.

1. Tobin's Q

This measure plays an important role in many financial interactions. It was created in 1966 as an empirical measure of financial market and macroeconomic investment analysis. Tobin's Q is defined as a firm's market value to the replacement cost of the valuation of its assets. On the other hand, its a means of estimating whether a given business is overvalued or undervalued (Chung& Pruitt, 1994). La Porta et al., (2000) indicate that the market value can significantly affect the company's real value if giving enough relevant information. James Tobin constructed the (TQ) value used in this research.

$$\text{Tobin's Q} = \frac{(Market\ value\ of\ equity + book\ value\ of\ debt)}{Book\ value\ of\ total\ assets}$$

Where:

Market value of equity =number of shares outstanding×market price per share.

Book value of debt= the value of long-term debt+ short- term debts.

Book value of assets = the value of total assets in the financial reports of the company.

2. ROE

This measure is to reveals the profitability of a business in relation to the equity, used for comparing the performance of the business in the same industry. Return on equity is the total return on equity capital and is a criterion that shows a company's ability to turn equity investments into profits. Return on equity is expressed as a percentage and is calculated by dividing net income by average total equity **(Hejazi et al.,2011)**. It can be calculated by the formula as follows:

$$ROE_{it} = \frac{Net\ Income\ i.t}{Average\ Total\ Equity}$$

Where :

ROE_{it}: return on equity for company (i) for the year(t).

Net income $_{it}$: net income for the company (i) for the year(t).

Average total equity: (total equity at the beginning year+ total equity at the end of year)/2

3.4.2 Independent Variables

A. Income Smoothing

The coefficient of variation approach developed by Eckel(1981) is used in this research to identify the presence of income smoothing. As is commonly assumed, changes in sales are the results of real smoothing while changes in income are the results of artificial smoothing, thus the study used real sales and income. Futher, Eckel uses the index term df to measure income smoothing. A company is given a value of 1 if its income is smoother and a value of 0 it's not (Susanto & Pradipta, 2019).

Eckel model developed this model based on a set of assumptions, including income is a linear function of sales, income smoothing can be paved by real boots and cannot be paved by artificial boots, and the variable cost ratio to sales is in constant currency unit, and fixed costs remain constant or increase and are not likely to decrease (Amina, 2018).

According to Eckel model 1981 the value of smoothing coefficient is founds as follows:

$$df = \frac{CV\Delta\ I}{CV\Delta\ S}$$

where :

df = The index of income smoothing

cvΔi = The coefficient of variation for changes in net income.

cvΔs = The coefficient of variation for changes in revenue/sales.(total sales from the income statement of the company).

The value of cvΔi *and* $cv\Delta s$ is calculated as follows:

$$=\sqrt{(\frac{\sum \Delta x - \Delta \overline{x}}{n-1})}$$

Where

Δx= change in net income(I) or sales (S).

$\Delta\bar{}$x = Average change in net income (I) or sales (S).

n = The number of years

when the value of df is less than 1, the income smoothing has been done. Otherwise, it has not been done.

B. Earnings Quality

Refers to the ability of reported earnings (or income)to predict future earnings for the company, and is an important criterion for assessing the persistency, controllability, and deductibility of a company's earnings, broadly defined as the degree to which earnings reflect underlying economic effects, and are best in estimating cash flows, or predictable. Taking into account all of these definitions, the study could have different approaches to earnings quality (Schipper & Vincent, 2003).

i) Accrual Quality

According to Al-Ani and Chong (2021), the accrual quality can be defined as the difference between current earnings and operating cash flow divided by average total

assets. The management uses its accounting estimates to hide economic shocks in the company, speed up the recognition of profits, or delay recognition of current losses to conceal a current poor performance or conceal a strong current performance(Leuz et al .,2003). The larger the accounting accruals, the greater the uncertainty and estimate error due to probable estimation mistakes. Thus, measuring the accrual quality by following using a formula used by Richardson (2003).

$$\text{Accrual Quality}= \frac{(Earning-CFO)}{Average\ Total\ Assets}$$

Where:

Earnings: earnings before extraordinary item.

CFO: cash flow from operations.

Average assets is the (total assets at the beginning of year+ total asset at the ending of year)/2

ii) Persistence

Earnings persistence defined by Eliwa et al (2016) as the present value of the change in expected future earnings because of current unexpected earnings . Persistence has been shown both analytically and empirically to be associated with larger investor responses to reported earnings (Schipper & Vincent, 2003).

A highly persistent earnings number is considered sustainable, that is more permanent and less transitory so a given realization for a persistent earnings series is a more readily usable shortcut to valuation by, for example, a P/E ratio (Francis et al., 2004)

Persistence of earnings is measured as the slope coefficient from the difference between current earnings and previous earnings (Francis et al., 2004) and calculated as follows:

$$\mathbf{E_{it=}\ \beta_{0it}\ +\beta_1\ E_{it-1}\ +\varepsilon_{it}}$$

Where :

$\mathbf{E_{it}}$ = is firm i's net income before extraordinary items in year (t).

$\mathbf{E_{it-1}}$ = is the net income of company i before extraordinary amounts in year (t-1).

$\boldsymbol{\varepsilon_{it}}$: is the error terms.

An increase in the value of β1 is associated with high earnings persistence and thereby a high earnings quality, while a decrease of β1 is associated with low earnings and lower earnings quality (Francis et al., 2008).

iii) Timeliness of Profit

This indicator attempts to measure earnings' ability to account for changes in economic value, as well as changes in equity market value, which is a desirable characteristic of earnings. Based on the model of Basu (1997), the stock price is determined based on combining all information in the market on time from a variety of sources. The coefficient of determination (R2) from Basu's regression formula as follows

$$\mathbf{EARN_{it=}\ \beta_{0it} + \beta_1 NEG_{it} + \beta_2 RET_{it} + \beta_3 NEG_{it} * RET_{it} + \varepsilon_{it}}$$

Where:

$\boldsymbol{\beta_{0it}}$=Intercept

$\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$, $\boldsymbol{\beta_3}$ = The coefficients

$\mathbf{EARN_{it=}}$ Profit per share of firm i in year t.

$\mathbf{RET_{it}}$ = is the share yield of firm i in year t.

$\mathbf{NEG_{it}}$ = is a dummy variable with value = 1 in case of good information.

$\mathbf{NEG_{it}=}$ is a dummy variable with value = 0 in case of bad information.

3.4.3 Control Variables

3.4.3.1 Company Size

Company size as a control variable can affect company value is measured by the natural logarithm of total assets (Suyono, 2018).

3.4.3.2 Financial Leverage

The concept of financial leverage refers to the use of debt as a source of financing for investing in the company and achieving returns on capital. Financial leverage is a

strategy that uses borrowed money to increase the potential return on investment, and the result is in wasting potential returns as well as potential negative side risks in the event of non-realization of returns and project failure. Companies can use debt financing to invest in business operations in an effort to increase shareholder value (Nurdiansyah, 2021).

3.4.3.3 Growth

Growth rates refer to the percentage change of a particular variable during a specified period. For investors, growth rates represent the compound annual growth rate of a company's revenue and earnings. Growth rates can be beneficial in evaluating and predicting a firm's performance. It is usually used by company management, investors, and analysts to periodically assess the company's growth and anticipated future performance (Williamson, 1966)

Growth rates can be obtained in several methods, depending on what the purpose is intended to convey. Growth illustrates revenue increase or decrease over time and helps investors to identify trends to gauge revenue growth over time (Varaiya etal., 1987).

The basic growth in sales revenue rate equation subtracts the current value from the previous value and then divided by the previous value (Tucker&Zarowin, 2006).

(Revenue period t – Revenue period t-1)/(Revenue period t-1)

3.4.3.4 Beta (systematic risk)

The beta calculation is used to help investors understand whether a stock moves in the same direction as the rest of the market, and how its volatile relative to the rest of the market (Abogun etal., 2021).

There is always risk built into every investment such as stocks or bonds. The two main components of financial risk are systemic risk and unsystematic risk. Unsystematic risk is a risk that is specific to a particular company or industry. It's also referred to as diversifiable risk. The risk inherent in the entire market or market segment is referred to as systemic risk. Systematic risk, also known as "market risk. Beta is a measure of a security's volatility (or systematic risk). It describes the relationship between systematic risk and expected return for assets. In statistics, beta indicates the slope of a line based

on data point regression. Each of these data points in finance shows the performance of a particular stock in relation to the market as a whole (Beja, 1972).

$$\text{Beta} = \frac{\text{Covariance}(R_e, R_m)}{variance(R_m)}$$

where:

R_e=the return on an individual stock

Rm=the return on the overall market

Covariance=Measure of a stock's return relativeto that of the market

Variance=Measure of how the market moves relative to its mean.

Chapter Four
Analysis and Results

4.1 Introduction

This chapter presents the analysis of the estimated model outlined in the previous chapter. The analysis includes a summary of statistical descriptive statistics, correlation matrix. Booth fixed effect model and random effect tests are modeled in the appendix (F, G, M, and N). At this end, the study adopted the Feasible Generalized Least Square (FGLS) technique as its ability to remedy the problem of heteroscedasticity and autocorrelation

4.2 Descriptive analysis

Table (2) shows a descriptive analysis of the research variables. These variables are the dependent variables (TQ, ROE), the independent variables (SM, T, PS, ACC), control variables (G, LV, SI, β) and dummy variables (I1, I2)

Panel (A) of the table (2) shows that the mean value of persistence is (-0.027), while the median is (0.520), the maximum value is (96.627), the minimum value is (-175.616), its standard deviation is (15.812). The mean of the timeliness is (0.786) with a median of (0.951), the maximum amount is (0.999), the minimum amount is (0.047), and the standard deviation is (0.302). The mean of the accrual is (0.801), the median is (0.957), the maximum is (0.999), the minimum is (0.047), and its standard deviation is (0.300). It is evident from the table that the above variables are negatively skewed and none of them is normally distributed

Panel (B) of the table (2) shows the mean value of TQ is (0.961) considered high compared with ROE (0.033), this means that most of companies are undervalued. The standard deviation of TQ is (0.390) and ROE is (0.119). It is evident from the table that TQ is positively skewed, ROE is negatively skewed and none of them is normally distributed.

Panel (C) of the table (3) shows the mean of smoothing is (0.700) which indicates that most of companies practice income smoothing. The maximum number of SM is (1.000). Whereas, the minimum is (0). The control variable of size has a high mean which is (17.118) compared to other control variables of study LV, G, and beta which are

(0.597),(1.347), and (0.502) respectively. Growth has the highest standard deviation which is (10.285) compared to the standard deviation of other control variables SI, LV, and β which are (1.544),(0.529), and (0.822) respectively. Its clear from the table that SM is negatively skewed, but the control variables (SI, LV, G, and β) are negatively skewed and none of them is normally distributed.

Panel (D) of the table (2) shows the industry dummy variables, the mean of I1 and I2 are (0.300) and (0.400) respectively and their standard deviation are (0.459), and (0.491) respectively. It is clear from the table that I1 and I2 are negatively skewed and none of them is normally distributed.

The distributions of TQ, SI, LV, G, I1and I2 have positive skewness means that the distribution has a long right tail, while PS, ACC, T, ROE, and SM have negatively skewed distributions. As well, the variables PS, ACC, T, TQ, ROE, LV, G, beta and have a leptokurtic distribution that exceeds 3, which implied a fat tail compared with the normal distribution. However, the variables SM, SI, I1, and I2 have a platykurtic distributions.

Table (2)

The Descriptive Statistics

Panel A: EQ Measures	**PS**	**T**	**ACC**
Maximum	96.627	0.999	0.999
Minimum	-175.616	0.047	0.047
Std. Dev.	15.812	0.302	0.300
Skewness	-6.268	-1.332	-1.483
Kurtosis	79.805	3.185	3.555
Probability	0.000	0.000	0.000
Observations	300	300	300
Panel B :Dependent Variables		**TQ**	**ROE**
Mean		0.961	0.033
Median		0.905	0.031
Maximum		2.712	0.340
Minimum		0.087	-0.754
Std. Dev.		0.390	0.119
Skewness		1.371	-1.735
Kurtosis		6.554	12.382
Probability		0.000	0.000
Observations		300	300

Panel C: Smoothing and Control Variables	**SM**	**SI**	**LV**	**G**	**B**
Mean	0.700	17.118	0.597	1.347	0.502
Median	1.000	17.016	0.454	0.009	0.364
Maximum	1.000	20.744	3.022	111.132	5.633
Minimum	0.000	13.700	0.009	-1.324	-1.095
Std. Dev.	0.459	1.544	0.529	10.285	0.822
Skewness	-0.873	0.421	1.339	9.157	2.313
Kurtosis	1.762	2.722	4.938	91.253	11.285
Probability	0.000	0.007	0.000	0.000	0.000
Observations	300	300	300	300	300

Pane l D : Dummy Variables	**I 1**	**I2**
Mean	0.300	0.400
Median	0.000	0.000
Maximum	1.000	1.000
Minimum	0.000	0.000
Std. Dev.	0.459	0.491
Skewness	0.873	0.408
Kurtosis	1.762	1.167
Probability	0.000	0.000
Observations	300	300

4.3 Correlation Matrix

A matrix of correlations coefficients coefficient between the pairs of independent variables used in regression analysis is reported in table (3).

Table (3) presents the pairwise correlation between independent variables of the study (PS, T, ACC, SM, SI, LV, G and β). The correlations between independent variables

are relatively low values, which do not indicate a possibility of multicollinearity between the variables. The largest correlation is between T and TQ which is (-0.46). However, a more formal test is performed using variance inflation factor (VIF), which indicates that none of the study variables have a high VIF factor.

Table (3)

The correlations Matrix

Variables	TQ	PS	ACC	T	SM	SI	LV	G	B
TQ	1								
PS	0.047	1							
ACC	-0.067	0.145	1						
T	-0.463	-0.042	-0.156	1					
SM	-0.172	0.026	0.071	-0.011	1				
SI	-0.164	0.066	0.139	-0.061	0.215	1			
LV	0.17	-0.031	-0.172	-0.01	0.094	0.251	1		
G	0.078	-0.015	-0.074	-0.063	0.006	-0.189	0.004	1	

Source: Stata Output

4.4 Models Estimation

Panel regression has been employed to estimate the econometric models. However, the results of the Feasible Generalized Least Squares (FGLS) are used to test the hypothesis of the study due to the present problem of serial correlation and heteroscedasticity. However, the results of the pooled regression, the fixed-effect model (FEM), and the random effect model

(REM) with their tests are outlined in the appendix respects.

4.4.1 First Model (TQ)

The first model examines the impact of earnings quality and income smoothing on the valuation of companies using TQ as a dependent variable.

$$\mathbf{TQ_{it}} = \boldsymbol{\beta_{0it}} + \boldsymbol{\beta_1 PS_{it}} + \boldsymbol{\beta_2 ACC_{it}} + \boldsymbol{\beta_3 T_{it}} + \boldsymbol{\beta_4 SM_{it}} + \boldsymbol{\beta_5 SI_{it}} + \boldsymbol{\beta_6 LV_{it}} + \boldsymbol{\beta_7 G_{it}} + \boldsymbol{\beta_8 B_{it}} + \boldsymbol{\beta_9 I1_{it}} + \boldsymbol{\beta_{10} I2_{it}} + \boldsymbol{\varepsilon_{it}}$$

A. Earnings Quality and TQ Ratio

Table (4) shows the existence of a positive but insignificant impact on earnings quality as measured by persistence (PS), this result came inconsistent with the researcher line. However, the impact of Earnings quality as measured by Accrual (ACC) is negative (-

.227) but insignificant. On the other hand, table (4) shows that timeliness (T) has a significant negative impact on the value of the company.

B. Smoothing and TQ Ratio

Concerning the effect of smoothing on firm value, the results show that smoothing has a negative but insignificant (-.057).

C. Control Variables and TQ Ratio

Table (4) shows a significant negative impact of size (SI) on Tobin's Q (TQ) where regression coefficient (-.073). However, the effect of leverage (LV) is positive and significant, where regression coefficient (.121). The results show a positive but insignificant impact of growth (G) on Tobin's Q (TQ) (-.001). However, table (4) show that the market uncertainty as measured by the β coefficient is positively and significantly related to Tobin's Q (TQ) with regression (.069).

Table (4)

TQ - FGLS

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0.002	0.001	1.48	0.139	-0.001	0.004	
ACC	-0.227	0.187	-1.21	0.225	-0.594	0.14	
T	-0.666	0.062	-10.73	0	-0.788	-0.545	***
SM	-0.057	0.045	-1.28	0.201	-0.144	0.03	
SI	-0.073	0.014	-5.19	0	-0.101	-0.046	***
LV	0.121	0.037	3.25	0.001	0.048	0.194	***
G	-0.001	0.002	-0.42	0.675	-0.004	0.003	
B	0.069	0.019	3.71	0	0.033	0.105	***
I 1	0.186	0.051	3.68	0	0.087	0.285	***
I 2	0.01	0.047	0.21	0.835	-0.082	0.102	
Constant	2.605	0.247	10.54	0	2.12	3.089	***
Mean dependent var		0.96	SD dependent var		0.392		
Number of obs		300	Chi-square		188.946		
Prob > chi2		0.031	Akaike crit. (AIC)		166.551		
*** p<.01, ** p<.05, * p<.1							

Source: **Stata output**

4.4.2 Second MODEL (ROE)

The second model examines the impact of earnings quality and income smoothing on the valuation of companies using ROE as a dependent variable. The results of the following model are below in table (5).

$$\mathbf{ROE_{it}=\beta_{0it} + \beta_1 PS_{it} + \beta_2 ACC_{it} + \beta_3 T_{it} + \beta_4 SM_{it} + \beta_5 SI_{it} + \beta_6 LV_{it} + \beta_7 G_{it} + \beta_8 B_{it} + \beta_9 I1_{it} + \beta_{10} I2_{it} + \varepsilon_{it}}$$

A. Earnings Quality and ROE Ratio

Table (5) shows persistence (PS) has a positive impact on companies' value as measured by (ROE), but this impact is insignificant. However, the accrual (ACC) shows a positive and significant impact on ROE where regression coefficient (.384). The results show the negative and significant impact of timeliness (T) on ROE with a regression coefficient (.059).

B. Smoothing and ROE Ratio

Table (5) shows that smoothing (SM) has a significant positive effect on the value of the company (.035).

C. Control Variables and ROE Ratio

Table (5) shows a positive and significant impact of size (SI) on ROE where regression coefficient (.015). On the other hand, Financial leverage(LV) shows a negative and significant impact on ROE shows with regression coefficient (-.068). Concerning to the effect of growth(G) and firm value, the result shows an insignificant and negative impact.

Table (5)

ROE- FGLS

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	0	0.75	0.451	0	0.001	
ACC	0.384	0.057	6.74	0	0.272	0.495	***
T	-0.059	0.019	-3.14	0.002	-0.096	-0.022	***
SM	0.035	0.014	2.58	0.01	0.008	0.061	***
SI	0.015	0.004	3.47	0.001	0.006	0.023	***
LV	-0.068	0.011	-6	0	-0.09	-0.046	***
G	0	0.001	0.73	0.468	-0.001	0.001	
B	-0.008	0.006	-1.39	0.166	-0.019	0.003	
I 1	0.02	0.015	1.28	0.2	-0.01	0.05	
I 2	0.058	0.014	4.07	0	0.03	0.086	***
Constant	-0.182	0.075	-2.42	0.015	-0.329	-0.035	**
Mean dependent var	0.033	SD dependent var		0.119			
Number of obs	300	Chi-square		183.425			
Prob > chi2	0.022	Akaike crit. (AIC)		-547.95			
*** p<.01, ** p<.05, * p<.1							

Source: stata output

4.5 Diagnostic Test

Several diagnostic checks have been performed on the estimated models include:

4.5.1 Variance Inflation Factor (VIF)

Table (6) presents the VIF between the independent variables of the study which (SI, β, G, ACC, T, LV, PS and SM) have values of (1.491,1.29,1.18,1.105,1.271,1.271,1.98 and 1.029), respectively. These values are less than 5, which indicates that there is no multicollinearity problem between variables in the model**.**

Table (6)

Variance Inflation Factor (VIF)

	VIF	1/VIF
PS	1.032	0.969
ACC	1.145	0.873
T	1.119	0.893
SM	1.328	0.753
SI	1.501	0.666
LV	1.226	0.816
G	1.115	0.897
B	1.219	0.82
1.I1	1.708	0.586
1.I2	1.676	0.597
Mean VIF	1.307	.

Source: Stata Output

4.5.2 Heteroscedasticity Test

4.5.2.1 Model 1: TQ ratio

Homoscedasticity is tested using the white test, where the null hypothesis there is no hertoscedasticity in the residual and that the residual is homoscedasticity. The results are

chi2(61) = 244.96, Prob > chi2 = 0.0000.Cameron & Trivedi's decomposition of IM-test. Therefore, If p-value is less than 5%, thus cannot reject the null hypotheses, which means that the problem of heteroscedasticity exists, table (7) express the white test .

Table (7)

TQ- White's test

Source	chi2	df	P
Heteroskedasticity	244.96	61.00	0.00
Skewness	61.23	10.00	0.00
Kurtosis	6.86	1.00	0.01
Total	313.05	72.00	0.00

4.5.2.2 Model 2: ROE Ratio

chi2(61) = 221.36 the Prob > chi2 = 0.0000, If the p-value is less than 5%, thus cannot reject the null hypotheses, which means the problem of heteroscedasticity exists.

Table (8)

ROE- White's test

Source	chi2	df	P
Heteroskedasticity	221.36	61.00	0.00
Skewness	33.40	10.00	0.00
Kurtosis	2.64	1.00	0.10
Total	257.40	72.00	0.00

4.5.3 Autocorrelation Test

Wooldridge test for autocorrelation in panel data tests the following null (H_0) versus the alternative hypothesis (H_1) as follows:

H0: no first-order autocorrelation

H1: there is first-order autocorrelation

In model 1, the results comes out as; F (1,29) = 2.336, and Prob > F = 0.1372 is more than 0.05, which means accept the null hypothesis . Therefore, concluding that there is no firs order autocorrelation between the residuals in the model. However, in model 2, thus, reject the null hypothesis as F (1,29) = 6.129, and Prob > F = 0.0194 is less than 0.05. Therefore, concluding that there is an autocorrelation between the residuals in the model.

Chapter Five
Conclusion and Recommendation

5.1 Introduction

This thesis aims to study the impact of the earnings quality and income smoothing on the valuations of companies listed on the Palestine exchange by using the data in the financial statements from 2010 to 2019. FGLS regression is employed to identify this impact on the value of companies using data with 300 observations.

5.2 Results

5.2.1 Earnings Quality on the Value of Company

There is a negative and significant impact of earnings quality as measured by timeliness (T) on firm value as measured by Tobin's Q (TQ) and ROE, this result can be explained by the possibility of leakage information before being published to the public. Accordingly, when information is realized in the market its full effect is being incorporated into the market price. This indicates a reversal effect which highlights the market inefficiency, this result supported by (Alkhatib & Harasheh, 2014) and (Shihadeh & Hannon, 2016), thus the result are consistent with the third hypothesis.

This research discovers a positive and significant effect of earnings quality as measured by accrual (ACC) on company value as measured by ROE. Earnings consist of two components (accruals and operating cash flow). Higher accruals relative to cash flow is a signal for earnings management. Because investors fail to evaluate operating cash flow information in earnings, they tend to be more optimistic about the likelihood of high-earning companies and more pessimistic about low-earning companies (Sulistiawan & Rudiawarni, 2017), therefore, the result are consistent with second hypothesis.

Nichols & Wahlen (2004) provide evidence that accruals generate less risk for stocks, thus managing earnings through accruals reduces stock risks.

The stock market reacts positively to earnings discretion, because the discretions facilitate the recognition of gains and losses promptly. Since management discretionary behaviors through accruals increase earnings persistence, and low information risk and thus constitutes an incentive for the investor, which raises the demand for shares, and

improve the ability of current earnings in signaling future firm's prospect, this result is confirmed (Ball et al.,2015) and (Sun & Rath, 2008).

In addition, Dechow & Schrand (2004) demonstrate that the interest in improving the quality of that future information used in forecasting, its accuracy, and proximity to reality will inevitably reflect positively on the effectiveness of investment decisions, which leads to more flow of funds into the market from all possible sources, support the capital market, encourage and attract investment.

These findings support investors and investment managers by enabling them to use accruals information as a trading strategy to reduce their risk and increase their returns.

5.2.2 Income Smoothing on the Value of Company

According to the research, income smoothing (SM) has a favorable and significant influence on company value as assessed by ROE. This finding backs up the findings of (Sri KUSTONO et al., 2021), (Susanto & Pradipta (2019), and (Dewi et al., 2018), which show that companies have a direct impact on the purchasing behavior of current investors because investors are long-term stakeholders who care about the current performance of companies and are interested in the element of sustainability. They base their investment decisions solely on annual income. This is in line with what Zarowin (2002) stated, namely, that income smoothing improves the accounting information in the report and substantially impacts the current investor's decision because it is the primary source of information used by investors. The correlation is that income smoothing increases dividend payments while maintaining a minimum rate of return, lowering the cost of capital. Because the stability of the income stream increases users' confidence in the company, they tend to convey information about the company's ability to earn future profits through the income stream. Providing income information for the current period is more valuable in predicting future profits, which reduces information risks. As a result, it aligns with investors' interests and attracts them to increase demand for the company's share, resulting in a rise in its price and thus the company's value and improved performance, thus the result are consistent with first hypothesis.

This outcome is in line with the agency theory. Management achieves what it wants from investors through income smoothing behavior, which is stock price stability. It

thus modifies its purchasing behavior based on the smoothing income and whenever stock prices become less volatile (Dewi et al., 2018).

5.2.3. Control Variables on the Value Company

5.2.3.1 Size and value of the Company

The study outcomes demonstrate that business size (SI) has a negative and significant impact on company value, as evaluated by Tobin Q. This finding is consistent with (Mutende et al., 2018), who show that a manager seeks to expand his empire by increasing company size and using outside money to expand the company in a risky way, increasing projects regardless of achieving the required return to prove to shareholders that it is managing a large company and deserves the high rewards and benefits that it enjoys, which leads to the agency problem and may expose the company to risks and losses that red flag the agency problem.

In contrast, a firm's size (SI) positively and considerably impacts its value as assessed by ROE. According to Imad (2015) and Susanto & Pradipta (2019), when management successfully fulfills investor wishes, investors believe management's actions are correct. Furthermore, huge organizations are the focus of attention for stakeholders, which encourages them to invest in these companies since they are better able to address the needs of their customers, have better access to information, and generate significant revenues. On the other side, management gains from volume savings and transportation costs, lowering the company's costs and resulting in a good return on investment.

5.2.3.2 Financial Leverage and Value of the Company

The findings show that financial leverage (LV) positively affects corporate value as assessed by Tobin's Q. (TQ). According to DANG et al., (2020), a company's capital structure is a significant factor in defining its value since financial leverage can lead to the greatest results when the operational and finance processes are efficient. Because the return on borrowed funds exceeds the cost of borrowing, profits must be generated, increasing the return provided to shareholders.

Financial leverage (LV), on the other hand, has a negative and considerable influence on corporate value as assessed by ROE. This implies that increasing a company's debt capital lowers its value. The high financial leverage ratio shows that the company is

experiencing a string of losses, rendering it unable to meet its financial obligations and causing owner equity to erode. The return on borrowed money is lower than the cost of borrowing in this situation, resulting in a lower rate of return on assets and a lower rate of return on equity. This outcome is acceptable (Abogun et al., 2021).

Furthermore, according to Santoso et al (2012), a high degree of leverage raises the firm's risk and cost of external funding, making it more reliant on retained earnings, creating management-shareholder agency difficulties.

5.2.3.3 β Coefficient and Value of the Company.

As assessed by the coefficient, the results show that market uncertainty is positively and significantly related to a firm's value, as measured by Tobin's Q. (TQ). This research suggests that market volatility increases investment in the Palestine Exchange (PEX), resulting in higher stock returns (Abogun et al., 2021).

5.3 Conclusion

1. Most of the companies in the study sample practice income smoothing.
2. Companies that smooth their income have high informative about their future earnings, and are more attractive to investors.
3. Income smoothing have a statistically significant impact on firm value.
4. The quality of earnings have a statistically significant impact on firm value.
5. The quality of earnings will minimizing capital costs, managers will manage profitability to provide future debt holders with secure revenue streams. As a result, the needed return of the loan holders is reduced, resulting in a decreased cost of capital for the firm.
6. Income smoothing increases dividend payments while maintaining a minimum rate of return, lowering the cost of capital.
7. The stock market reacts positively to earnings discretion, because the discretions facilitate the recognition of gains and losses promptly. Since management discretionary behaviors through accruals increase earnings persistence, and low information risk and thus constitutes an incentive for the investor.

8. Market volatility increases investment in the Palestine Exchange (PEX), resulting in higher stock returns

5.4 Recommendations

1. The researcher suggest future studies to apply the research through the financial sectors in Palestinian companies.
2. The researcher suggests adopting laws and regulations to enhance foreign investment in the Palestine Exchange (PEX), given the role of foreign investments in developing the state's economy.

5.5 Limitations

Some limitations may influence the results of the study, namely:

1. The researcher has excluded the financial sector in this research.
2. The researcher suggest future research through using different method to detect income smoothing practices such as interviews and questionnaires.

List of Abbreviations

PS	Persistence of earnings
ACC	Accrual quality
T	Timeliness of profit
SM	Smoothing Income
SI	Company size
LV	Financial leverage
G	Growth in sale
B	Beta (market risk)
ε	Error
TQ	Tobines'Q ratio
ROE	Return on Equity
I1, I2	Industry Dummy variables

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Appendices

Appendix (A) Sample of companies across 3sector in Palestine exchange

	Name of company	Sector	Currency	Code
1	Arab Hotels Company	services	Jordanian Dinar	AHC
2	Al-Wataniah Towers	services	US Dollar	ABRAJ
3	Nablus Surgical Speciality Center	Services	Jordanian Dinar	NSC
4	PalAqar Company for Estatate Management & Development	Services	Jordanian Dinar	PALAQAR
5	Palestine Telecommunications	Services	Jordanian Dinar	PALTEL
6	Palestine Electric	Services	US Dollar	PEC
7	The Ramallah Summer Resorts	Services	Jordanian Dinar	RSR
8	WASSEL	Services	US Dollar	WASSEL
9	Wataniya Mobile	Services	US Dollar	WATANIYA
10	Arab Company for Paints Products	Industry	Jordanian Dinar	APC
11	AZIZA	Industry	Jordanian Dinar	AZIZA
12	Birzeit Pharmaceuticals	Industry	US Dollar	BPC.D
13	Al Shark Electrode	Industry	Jordanian Dinar	ELECTRODE
14	Golden Wheat Mills	Industry	Jordanian Dinar	GMC
15	Jerusalem Cigarette	Industry	Jordanian Dinar	JCC
16	Jerusalem Pharmaceuticals	Industry	US Dollar	JPH.D
17	Palestine Plastic Industries	Industry	Jordanian Dinar	LADAEN
18	National Aluminum & Profile "NAPCO	Industry	Jordanian Dinar	NAPCO
19	The National Carton Industry	Industry	US Dollar	NCI.D
20	Dar Al-Shifa Pharmaceuticals	Industry	US Dollar	PHARMACARE
21	The Vegetable Oil Industries	Industry	Jordanian Dinar	VOIC
22	Arab Palestinian Investment Company APIC	Investment	US Dollar	APIC
23	AL-AQARIYA Trading Investment	Investment	US Dollar	AQARIYA
24	Arab Investors	Investment	Jordanian Dinar	ARAB

	Name of company	Sector	Currency	Code
25	Jerusalem Real Estate Investment	Investment	US Dollar	JREI
26	Palestine Development & Investment	Investment	US Dollar	PADICO
27	Palestine Investment & Development	Investment	Jordanian Dinar	PID
28	Palestine Industrial Investment	Investment	Jordanian Dinar	PIIC
29	The Palestine Real Estate Investment	Investment	Jordanian Dinar	PRICO
30	Union Construction And Investment	Investment	US Dollar	UCI

Appendix (B) Previous Studies

No.	Title	Author	Variables	Measures	Results
1	The effect of income smoothing and earning quality on the financial performance of firms	Ariamand& Ebrahimi, 2020.	1. Income smoothing	Eckels method 1981.	1. Weak, insignificant and non-linear relationship between earnings quality and P/E ratio.
			2. Earning quality	Sloan 1996.	2. EQ has significantly correlates with a negative coefficient with ROE and ROA.
			3. P.erformance	Price-earnings ratio, ROE, ROA.	3.No significant difference of ROE and ROA and P/E of smoother and non-smoother firms.
2	Earning quality and income smoothing motivates: Evidence from Indonesia	Sri KUSTONO et al ., 2021	1. Earning Quality.	Earnings persistence	1. Institutional ownership does not affect earning quality.
			2. Leverage.	Debt to Asset ratio.	2. institutional ownership has a negative effect on income smoothing.
			3. Institutional investor.	No. of shares owned compared to total shares.	3. Leverage has a negative effect on income smoothing.
			4. Independent commissioner.	No.of independent commissioner.	4. Independent commission has a positive effect on earning quality.
			5. Income Smoothing.	kustono(2011)	5. Income smoothing has a positive effect on earning quality.
3	Income smoothing and firm value in a regulated market: the moderating effect of market risk	Abogun et al ., 2021	1. Income smoothing.	Tucker and Zarowin, 2006.	1. Income smoothing has a significant negative impact on firm value.
			2. Firm value.	Average Share Price.	2. The market risk is significant that defines the relationship between IS and FV .
			3. Market risk.	Standard deviation of all share indexes.	
			4. Leverage.	Debt to the total asset.	
			5. Profitability.	ROA	
4	Firm value, firm size and income smoothing.	Susanto & Pradipta,2019	1. Firm value.	Price-earnings ratio.	1. Firm value positively significant on income smoothing.
			2. Firm size.	ln(total asset).	2. Firm size negatively and significant on income smoothing.

No.	Title	Author	Variables	Measures	Results
			3. Income smoothing	Eckel method,1981.	
5	The impact of earning quality and income smoothing on the performance of companies listed on the Tehran Stock Exchange	Hejazi et al., 2011	1. income smoothing.	Eckel method,1981.	1. Performance is not influenced by income smoothing or earning quality.
			2. Earning Quality.	Sloan,1996	
			3. Performance	P/E ratio.	
6	Income smoothing, earnings quality and firm valuation	Bao & Bao, 2004	1. Earning quality	Sloans, 1996	1. EQ smoothers have the highest price-earnings multiple
			2.Size	Debt to Equity ratio.	2. Non-quality non-smoothers have the lowest.
			3. Income smoothing.	Michelson et al 1995and 2000.	
			4. Firm valuation	EPS	
7	A relationship between income smoothing practices and firm's value in Iran.	Etemadi & Sepasi, 2008	1. Income smoothing	Eckels method,1981.	1. Smaller firms have a greater tendency to smooth income rather than a larger firm
			2. Firm value	PER	2. There is no significant association between the smoothing status and the value of the firms.
			3. Firm size	Total asset	
8	The relationship between the smoothing of reported income and risk-adjusted returns	Michelson et al., 2000	1. Income smoothing.	Eckels,1981.	1. Market response is positively for the firm that smooth income
			2. Abnormal return.	Daily return	2. SI has a significantly higher cumulative average abnormal return than the firm does not.
			3. Size	Market value of equity.	3. Abnormal returns are stronger for smaller firms than for larger firms.
9	A MARKET-BASED ANALYSIS OF INCOME	OBEIDAT, 2021	1. Income smoothing.	Echel,1981.	l.Smoothing firms have lower annualize return thatn firms donot smooth their income
			2. Performance	Daily return.	2. Lower return, lower risk, and larger firm

No.	Title	Author	Variables	Measures	Results
	SMOOTHING		in the marketplace		sizes for smoothing firms
10	Income smoothing practices among listed firms in Malaysia	Mohammad, 2001	1. income smoothing.	Eckel,1981.	1. Principal-agent relationship and a firm's profitability have a strong impact on IS
			2. profitability.	PER	2. Profitability and debt financing have negative with income smoothing.
11	Income Smoothing, Real Earnings Management and Long-run Stock Returns	Aflatooni & Nikbakht, 2010	1. Size.	log of the market value of equity or book to market ratio.	1. IS has significantly lower long-run returns and abnormal returns than firms do not.
			2. Income smoothing.	Tucker and Zarowin (2006).	2. There is a significantly negative relationship between long-run and abnormal returns and IS
			3. Stock return.	Monthly return.	3. There is a significant relationship between long-run and abnormal returns and managing earnings
12	Effects of Corporate Governance and Earning Quality on Listed Vietnamese Firm Value	DANG et al ., 2020	1. Firm value	Tobins Q	1. The Board of Directors and the aggregate Supervisory Board positively affect the firm value.
			2. earning quality	Dechow and Dichev (2002)	2. Supervisory factor has a negative relationship to the Earning Quality.
			3. Corporate governance	The average number of members of the Board of Directors	
13	The Impact of Income Smoothing on Tax Profit: An Applied Study to a Sample of International Companies	Al Baaj et al ., 2018	1. Income smoothing.	Eckel,1981	1.Earnings play avital role in determinig variable for stock return, which are lower for smoothing firms
			2. Income tax.	ROA&ROE.	
14	Institutional Ownership, Types of Industry, and Income Smoothing: Empirical Evidence from Indonesia	Suyono, 2018	1. Income smoothing.	Echel,1981.	1. Institutional ownership does not significantly influence the income smoothing for
			2. Institutional ownership.	Suyono,2016.	2. Types of industry do not influence significantly on income smoothing practices

No.	Title	Author	Variables	Measures	Results
			3. Company size.	Log(total asset).	3. Company size has a positive influence on income smoothing(dummy variable)
			4. Types of industry.	dummy variables	
15	The impact of income smoothing on earnings quality in emerging markets: evidence from GCC markets.	Shubita, 2015	1. Income smoothing.	Eckel (1981)	1. Income smoothing improved the quality of earnings ability to reflect company performance
			2. Earnings Quality	Stock return	2. Managers of companies facing lower profits have more incentive to smooth earnings
16	Influence Of Income Smoothing On Tax Profitability Of Commercial Banks Of Jordan	OBEIDAT, 2021	1. Income Smoothing.	Eckel (1981)	1. There lies a significant positive relationship between the IS and the tax profits.
			2. Profitability.	Earning before tax.	
			3. Bank size.	Total asset	
17	The Effect of Profitability in Income Smoothing Practice with Good Corporate Governance and Dividend of Payout Ratio	Yanti et al., 2019	1. Profitability.	ROA	1.Profitability has a positive effect on the probability of the occurrence of income smoothing practices
			2. Income smoothing.	Eckel (1981)	
18	Income Smoothing Practices : Evidence from Eqypt	Younis, 2018	1.Income Smoothing	Eckel Model	1.There is no significant difference between SM and non-smoothers particulary profitablity ,EPSand DY
			2.Firm Profitability	Dividend Yield and Earnings Per Share	
19	Tobin's q Ratio and Firm Performance	Fu et al., 2016	1.Firm Performance	Operating Cash Flow	1.Positive relationship between the q ratio and future performance of a firm for a sample of US traded firm
			2.Tobins Q	Q ratio	2. Firms with higher q ratios experience superior operation performance in the long run

No.	Title	Author	Variables	Measures	Results
20	The empirical evidence of the effect of company size, leverage and profitability on income smoothing	Nurdiansyah et al., 2021	1.Company Size	Total asset	1. Company size and leverage had a positive impact on income smoothing
			2.Leverage	Total debt/Total Capital	2.Profiability had negative effect on income smoothing
			3.Profitability	ROA	
			4.Income Smoothing	Eckel Model	
21	The relation between earnings quality and corporate performance for the frims listed in the LISBON stock exchange	Annes & Domingos, 2016	1.Earnings Quality	Francis et al 2004	1. Using persistence is only statucakt assiciated with greater firm valuation
			2.Corporate Performance	Tobins Q	
22	The Impact of Earnings Quality on Firm Value: The Case of Vietnam	DANG et al., 2020	1.Earnings Quality	Time sereies of earnings-(timeliness, persistence earnings management	1.Earnings qulaity is postivelty significant associated with firm value
			2.Firm Value	Tobins Q	
23	Does Earnings Quality Affect Companies' Performance? New Evidence from the Jordanian Market	Saleh et al., 2020	1.Earnings Quality	Cash Approach	1. High earnings quality increases the companies performance of Jordanian industrial companies
			2.Frims Performance	ROA, ROE, EPS	2. Hith earnings quality positiviely affect ROA,ROE, and EPS.
24	Does income smoothing improve earnings informativeness?	Tucker & Zarowin, 2006	1.Income Smoothing	Jones Model	1.Higher smoothing firms future earnings are larger than of lower smoother firms
			2.Information Effeciency	CKSS approch	2. Income smoothing improve the informativeness
25	Earnings Quality and Market Values of Indonesian Listed Firms	Hutagaol-Martowidjojo et al., 2019	1.Earnings Quality	Time sereies of earnings-accounting measures	1.Earnings quality (EQ) is negatively correlated with the market values of equity
			2.Market value of firm	Tobins Q	

No.	Title	Author	Variables	Measures	Results
26	Earnings Quality: A Missing Link between Corporate Governance and Firm Value	Latif et al., 2017	1. Corporate Governance	Principal Component Analysis	1.Persistence, predictability, value relevance, accrual quality and smoothness improve ROA
			2.Earnings Quality	Persistence, accrual,smoothiness,predictability, and value relevance	2.All earnings quality attributes have a significant positive affect on TQ
			3.Firm Value	ROA, Tobins Q	3.Persistence and smoothness negatively affect the Tobin-Q at a 1% level.
27	Earnings Quality, Risk-taking and Firm Value: Evidence from Taiwan	Lu, 2012	1.Earnings Quality	Accrual Quality	1. Higher accrual quality negative influnce Tobins Q
			2.Risk taking	EDP, stock return volatility	2.Higher earnings quality is accompanied with lower risk taking and higher firm value
			3.Firm Value	Tobins Q	
28	Does the use of income smoothing lead to a higher firm value among public European companies?	Yueng, 2009	1.Income Smoothing	Eckel Model	1.There is no relation exists between the use of income smoothing and the firm value.
			2.Firm Value	Tobins Q	2.This will imply that the firms regarding with high earnings quality will have a higher firm value
			3.Earnings Quality	Sloan (1996)	
29	Does Income Smoothing Make Stock Prices More Informative?	Tucker and Zarowin, 2002	1.Income Smoothing	Myers and Skinner (1999)+ The variation of net income relative to the variation in CFO	1.Firms with greater smoothing have more informative stock prices
			2.Stock price informativeness	coefficient on future earningsin a regression of current stock return against current and future earnings	
30	Real Earnings Management and Persistence of Firm Value: Evidence from India	POTHARLA et al., 2021	1.Firm Value	Tobins Q	
			2.Earnings management	Brown et al., 2015 , Kim et al., 2012, McGuire et al., 2012	1.Real earnings management has a negative effect on the persistence of the future value of the firm

Appendix (C) Variables and Measurements

Variables	Measures	References
Dependent Variable		
Company valuation	2.Tobin's Q= (Market value of equity+book value of debt)/(Book value of total assets)	1.(Bitner& Dolan, 1996)
		2.(DANG et al .,2020)
	3.ROE i.t = (Net income i.t)/(Average Total equity)	1.(Al Baaj et al.,2018)
		2.(Ariamand & Ebrahimi,2020)
		3.(SALEH et al., 2020)
		4.(EBRAHIMI, 2020)
Independent variables		
1.Income smoothing.	Eckel model 1981 = (CVΔ I)/(CVΔ S)	1.(Abogun et al.,2021)
		2.(Hejazi et al.,2011).
		3.(Emad et al.,2020)
		4.(Saringat et al.,2013).
		5.(Al Baaj et al.,2018)
		6.(Anwar & Chandra,2017).
		7.(Nurdiansyah et al .,2021)
		8.(Yang et al .,2012).
		9.(Yanti & Dwirandra,2019)
		10.(Susanto & Pradipta, 2019)
		11.(Ariamand & Ebrahimi,2020)
		12(Etemadi & Sepasi,2008).
		13.(EBRAHIMI, 2020)
		14.(Bitner& Dolan, 1996)
2.Earnings quality	1.Accrual Quality=((Net income-CFO)/(Average Assets))	1.(Al Ani & Chong ,2021)
		2.(Desai et at .,2006)
		3.(Richardson et al., 2001).
		3.(Lyimo,2014)
	2.Persistence = slope of the equation Eit = β0i + β1i Eit-1 + it	1.(Hejazi et al.,2011).
		2.(DANG et al .,2020)
		3.(Gaio& Raposo,2014).
	3.Timeliness of profit=β0+β1NEGit+β2RE Tit+β3NEGit*RETit+εit t The level of explaniation R2 of the equation.	1.(Hejazi et al.,2011).
		2.(DANG et al .,2020)
		3.(Gaio& Raposo,2014).
		4.(Basu,1997).
Control variables	1.Firm size = Log(total assets).	1.(Imad,2015)
		2.(Nurdiansyah et al .,2021)

Variables	Measures	References
		3.(Abogun et al .,2021)
		4.(Susanto & Pradipta, 2019)
		5.(SALEH et al., 2020)
		6.(DANG et al .,2020)
	2.Financial leverage=(Total Debts)/(Total equity).	1.(Anwar & Chandra,2017).
		2.(Imad,2015)
		3.(Nurdiansyah et al .,2021)
		4.(Sri KUSTONO et al .,2021).
		5.(Bitner& Dolan, 1996)
		6.(DANG et al .,2020)
	3.Growth= (Revenue period t – Revenue period t-1)/(Revenue period t-1).	1.(Bitner& Dolan, 1996)
	4.Beta= Slope (Covariance(Re,Rm))/(variance(Rm)).	1.(Abogun et al .,2021)

Appendix (D) Serial Correlation Test: TQ ratio

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F(1, 30) = 53.418
Prob > F = 0.0000

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	.001	-0.06	.951	-.001	.001	
ACC	-.138	.137	-1.01	.315	-.406	.131	
T	13.047	2.438	5.35	0	8.246	17.848	***
SM	1.094	.252	4.34	0	.598	1.59	***
SI	-.013	.04	-0.32	.75	-.092	.066	
LV	-.033	.043	-0.76	.446	-.117	.052	
G	-.005	.001	-4.36	0	-.007	-.003	***
B	.031	.022	1.45	.148	-.011	.074	
ID : base 1	0	.	.	.	.	.	
2	-.5	.098	-5.10	0	-.692	-.307	***
3	9.86	1.719	5.74	0	6.475	13.245	***
4	8.173	1.62	5.05	0	4.984	11.363	***
5	4.73	.891	5.31	0	2.975	6.484	***
6	-.318	.097	-3.28	.001	-.509	-.128	***
7	-1.797	.233	-7.70	0	-2.257	-1.338	***
8	5.302	.992	5.34	0	3.348	7.255	***
9	-1.827	.314	-5.82	0	-2.445	-1.209	***
10	-1.157	.183	-6.32	0	-1.517	-.796	***
11	-1.099	.143	-7.67	0	-1.381	-.817	***
12	.953	.247	3.86	0	.466	1.439	***
13	-1.255	.212	-5.91	0	-1.673	-.836	***
14	11.261	1.97	5.72	0	7.383	15.139	***
15	-.839	.137	-6.14	0	-1.108	-.57	***
16	-1.312	.254	-5.16	0	-1.812	-.811	***
17	.277	.135	2.04	.042	.01	.543	**
18	-1.349	.112	-12.05	0	-1.57	-1.129	***
19	-.315	.104	-3.02	.003	-.52	-.11	***
20	8.937	1.73	5.17	0	5.531	12.342	***
21	.201	.175	1.15	.252	-.143	.545	
22	-1.395	.237	-5.87	0	-1.862	-.927	***
23	-.408	.274	-1.49	.137	-.948	.131	
24	2.812	.568	4.95	0	1.693	3.931	***
25	-.302	.135	-2.25	.025	-.567	-.037	**
26	-.305	.095	-3.20	.002	-.492	-.118	***
27	-.413	.098	-4.21	0	-.606	-.22	***
28	12.558	2.307	5.44	0	8.016	17.1	***
29o	0	.	.	.	.	.	
30o	0	.	.	.	.	.	
Constant	-11.516	2.04	-5.64	0	-15.533	-7.499	***
Mean dependent var		0.960	SD dependent var		0.392		
R-squared		0.810	Number of obs		300		
F-test		32.160	Prob > F		0.000		
Akaike crit. (AIC)		-137.155	Bayesian crit. (BIC)		-3.819		

*** *p<.01*, ** *p<.05*, * *p<.1*

Appernidx (E) Serial Correlation Test: ROE ratio

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F (1, 27) = 2.307
Prob > F = 0.1404

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	.001	0	2.52	.012	0	.001	**
ACC	.27	.051	5.25	0	.168	.371	***
T	-1.091	.916	-1.19	.235	-2.895	.713	
SM	-.108	.095	-1.14	.254	-.295	.078	
SI	.027	.015	1.78	.077	-.003	.056	*
LV	-.069	.016	-4.28	0	-.1	-.037	***
G	.001	0	1.95	.052	0	.002	*
B	.001	.008	0.17	.864	-.015	.017	
ID : base 1	0	.	.	.	.	.	
2	.059	.037	1.61	.108	-.013	.132	
3	-.452	.646	-0.70	.484	-1.724	.819	
4	-.529	.609	-0.87	.385	-1.728	.669	
5	-.369	.335	-1.10	.272	-1.028	.291	
6	.029	.036	0.81	.421	-.042	.101	
7	.246	.088	2.80	.005	.073	.418	***
8	-.304	.373	-0.82	.415	-1.038	.43	
9	.207	.118	1.76	.08	-.025	.44	*
10	.14	.069	2.03	.043	.004	.275	**
11	.186	.054	3.45	.001	.08	.292	***
12	-.001	.093	-0.01	.994	-.184	.182	
13	.102	.08	1.28	.203	-.055	.259	
14	-.979	.74	-1.32	.187	-2.436	.478	
15	.183	.051	3.57	0	.082	.284	***
16	.194	.095	2.03	.044	.006	.382	**
17	.123	.051	2.43	.016	.023	.224	**
18	.021	.042	0.50	.62	-.062	.104	
19	.149	.039	3.80	0	.072	.226	***
20	-.726	.65	-1.12	.265	-2.006	.554	
21	.05	.066	0.76	.45	-.08	.179	
22	.23	.089	2.58	.011	.054	.406	**
23	.167	.103	1.62	.106	-.036	.37	
24	-.119	.214	-0.56	.579	-.539	.302	
25	-.03	.051	-0.59	.556	-.129	.07	
26	.061	.036	1.70	.09	-.01	.131	*
27	.009	.037	0.25	.804	-.063	.082	
28	-.844	.867	-0.97	.331	-2.551	.863	
29o	0	.	.	.	.	.	
30o	0	.	.	.	.	.	
Constant	.623	.767	0.81	.417	-.887	2.132	
Mean dependent var		0.033	SD dependent var			0.119	
R-squared		0.706	Number of obs			300	
F-test		18.140	Prob > F			0.000	
Akaike crit. (AIC)		-724.375	Bayesian crit. (BIC)			-591.038	

*** *p<.01*, ** *p<.05*, * *p<.1*

Appendix (F) POLS -Tobins Q

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	.002	.001	1.45	.147	-.001	.004	
ACC	-.227	.191	-1.19	.235	-.602	.148	
T	-.666	.063	-10.53	0	-.791	-.542	***
SM	-.057	.045	-1.26	.21	-.146	.032	
SI	-.073	.014	-5.10	0	-.101	-.045	***
LV	.121	.038	3.19	.002	.046	.195	***
G	-.001	.002	-0.41	.681	-.004	.003	
B	.069	.019	3.64	0	.032	.106	***
1	.186	.051	3.61	0	.084	.287	***
1	.01	.048	0.20	.838	-.084	.104	
Constant	2.605	.252	10.34	0	2.109	3.101	***

Mean dependent var	0.960	SD dependent var	0.392
R-squared	0.386	Number of obs	300
F-test	18.202	Prob > F	0.000
Akaike crit. (AIC)	164.551	Bayesian crit. (BIC)	205.292

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix (G) Fixed Effects Model -TQ

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	.001	-0.06	.951	-.001	.001	
ACC	-.138	.137	-1.01	.315	-.406	.131	
O	0	.	.	.	.	.	
O	0	.	.	.	.	.	
SI	-.013	.04	-0.32	.75	-.092	.066	
LV	-.033	.043	-0.76	.446	-.117	.052	
G	-.005	.001	-4.36	0	-.007	-.003	***
B	.031	.022	1.45	.148	-.011	.074	
I 1 : base 0	0	.	.	.	.	.	
1o	0	.	.	.	.	.	
I 2 : base 0	0	.	.	.	.	.	
1o	0	.	.	.	.	.	
Constant	1.187	.682	1.74	.083	-.156	2.531	*

Mean dependent var	0.960	SD dependent var	0.392
R-squared	0.075	Number of obs	300
F-test	3.559	Prob > F	0.000
Akaike crit. (AIC)	-195.155	Bayesian crit. (BIC)	-169.228

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix (H) Random Effects Model -TQ

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	.001	0.22	.822	-.001	.002	
ACC	-.156	.14	-1.12	.263	-.43	.117	
T	-.676	.136	-4.95	0	-.943	-.408	***
SM	-.052	.097	-0.54	.59	-.242	.138	
SI	-.051	.024	-2.09	.036	-.099	-.003	**
LV	.009	.04	0.21	.831	-.071	.088	
G	-.005	.001	-4.15	0	-.007	-.003	***
B	.043	.02	2.09	.037	.003	.082	**
1	.21	.109	1.92	.055	-.004	.423	*
1	.032	.1	0.32	.753	-.165	.228	
Constant	2.305	.442	5.22	0	1.439	3.17	***

Mean dependent var	0.960	SD dependent var	0.392
Overall r-squared	0.336	Number of obs	300
Chi-square	49.040	Prob > chi2	0.000
R-squared within	0.067	R-squared between	0.406

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix (I) Hausman (1978) Specification Test

	Coef.
Chi-square test value	8.155
P-value	.227

Regression Results

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	.001	-0.06	.951	-.001	.001	
ACC	-.138	.137	-1.01	.315	-.406	.131	
O	0	.	.	.	.	.	
O	0	.	.	.	.	.	
SI	-.013	.04	-0.32	.75	-.092	.066	
LV	-.033	.043	-0.76	.446	-.117	.052	
G	-.005	.001	-4.36	0	-.007	-.003	***
B	.031	.022	1.45	.148	-.011	.074	
I 1 : base 0	0	.	.	.	.	.	
1o	0	.	.	.	.	.	
I 2 : base 0	0	.	.	.	.	.	
1o	0	.	.	.	.	.	
Constant	1.187	.682	1.74	.083	-.156	2.531	*

Mean dependent var	0.960	SD dependent var	0.392
R-squared	0.075	Number of obs	300
F-test	3.559	Prob > F	0.000
Akaike crit. (AIC)	-195.155	Bayesian crit. (BIC)	-169.228

*** *p<.01, ** p<.05, * p<.1*

Appendix (J) Robust Fixed Effects Model

TQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	.001	-0.12	.908	-.001	.001	
ACC	.054	.17	0.32	.752	-.294	.402	
O	0	.	.	.	.	.	
O	0	.	.	.	.	.	
SI	-.22	.098	-2.25	.032	-.42	-.02	**
LV	.219	.071	3.10	.004	.075	.364	***
G	.003	.001	2.97	.006	.001	.004	***
B	.048	.022	2.24	.033	.004	.093	**
I 1 : base 0	0	.	.	.	.	.	
1o	0	.	.	.	.	.	
I 2 : base 0	0	.	.	.	.	.	
1o	0	.	.	.	.	.	
Constant	4.582	1.659	2.76	.01	1.19	7.975	***

Mean dependent var	0.964	SD dependent var	0.416
R-squared	0.231	Number of obs	221
F-test	11.294	Prob > F	0.000
Akaike crit. (AIC)	-110.911	Bayesian crit. (BIC)	-90.522

*** *p<.01, ** p<.05, * p<.1*

Appendix (K) Nested Regression

Variable	*FEM*	*REM*	*RPOLS*	*FGLS*
PS	-0.000045	0.000169	0.001688	0.001688
ACC	-0.137529	-0.156434	-0.226867	-0.226867
T	(omitted)	-.67563219***	-.66635028***	-.66635028***
SM	(omitted)	-0.052270	-0.057003	-0.057003
SI	-0.012793	-.05111194*	-.07308837***	-.07308837***
LV	-0.032600	0.008602	.1207772*	.1207772**
G	-.00509098***	-.00500149***	-0.000764	-0.000764
B	0.031247	.04255027*	.06901184**	.06901184***
I1				
1	(omitted)	0.209515	.18577596***	.18577596***
I2				
1	(omitted)	0.031573	0.009744	0.009744
_cons	1.187423	2.3045154***	2.6049689***	2.6049689***

Appendix (L) POLS - ROE

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	0	0	0.74	.46	0	.001	
ACC	.384	.058	6.62	0	.27	.498	***
T	-.059	.019	-3.08	.002	-.097	-.021	***
SM	.035	.014	2.53	.012	.008	.062	**
SI	.015	.004	3.41	.001	.006	.023	***
LV	-.068	.012	-5.89	0	-.09	-.045	***
G	0	.001	0.71	.477	-.001	.002	
B	-.008	.006	-1.36	.175	-.019	.003	
I 1 : base 0	0	.	.	.	.	.	
1	.02	.016	1.26	.209	-.011	.05	
I 2 : base 0	0	.	.	.	.	.	
1	.058	.015	4.00	0	.029	.087	***
Constant	-.182	.077	-2.38	.018	-.333	-.031	**

Mean dependent var	0.033	SD dependent var	0.119
R-squared	0.379	Number of obs	300
F-test	17.670	Prob > F	0.000
Akaike crit. (AIC)	-549.945	Bayesian crit. (BIC)	-509.204

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix (M) Fixed Effects Model -ROE

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	.001	0	2.52	.012	0	.001	**
ACC	.27	.051	5.25	0	.168	.371	***
SI	.027	.015	1.78	.077	-.003	.056	*
LV	-.069	.016	-4.28	0	-.1	-.037	***
G	.001	0	1.95	.052	0	.002	*
B	.001	.008	0.17	.864	-.015	.017	
Constant	-.384	.256	-1.50	.135	-.889	.121	

Mean dependent var	0.033	SD dependent var	0.119
R-squared	0.205	Number of obs	300
F-test	11.344	Prob > F	0.000
Akaike crit. (AIC)	-782.375	Bayesian crit. (BIC)	-756.448

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix (N) Random Effects Model -ROE

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	.001	0	2.44	.015	0	.001	**
ACC	.286	.05	5.71	0	.188	.384	***
T	-.06	.049	-1.22	.223	-.156	.036	
SM	.033	.035	0.93	.35	-.036	.101	
SI	.018	.009	2.10	.036	.001	.036	**
LV	-.069	.014	-4.79	0	-.098	-.041	***
G	.001	0	1.90	.057	0	.002	*
B	-.001	.007	-0.19	.847	-.016	.013	
1	.021	.039	0.54	.591	-.056	.098	
1	.06	.036	1.66	.097	-.011	.13	*
Constant	-.245	.159	-1.54	.123	-.556	.066	

Mean dependent var	0.033	SD dependent var	0.119
Overall r-squared	0.363	Number of obs	300
Chi-square	87.513	Prob > chi2	0.000
R-squared within	0.203	R-squared between	0.457

*** *p<.01, ** p<.05, * p<.1*

Appendix (O) Hausman (1978) specification test

	Coef.
Chi-square test value	4.35
P-value	.629

Regression Results

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	.001	0	2.52	.012	0	.001	**
ACC	.27	.051	5.25	0	.168	.371	***
SI	.027	.015	1.78	.077	-.003	.056	*
LV	-.069	.016	-4.28	0	-.1	-.037	***
G	.001	0	1.95	.052	0	.002	*
B	.001	.008	0.17	.864	-.015	.017	
Constant	-.384	.256	-1.50	.135	-.889	.121	

Mean dependent var	0.033	SD dependent var	0.119
R-squared	0.205	Number of obs	300
F-test	11.344	Prob > F	0.000
Akaike crit. (AIC)	-782.375	Bayesian crit. (BIC)	-756.448

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix (P) Robust Fixed Effects Model

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PS	.001	0	2.75	.01	0	.001	**
ACC	.27	.116	2.33	.027	.033	.506	**
O	0	.	.	.	.	.	
O	0	.	.	.	.	.	
SI	.027	.015	1.79	.085	-.004	.057	*
LV	-.069	.045	-1.52	.139	-.161	.024	
G	.001	0	1.80	.082	0	.002	*
B	.001	.005	0.30	.767	-.008	.011	
Constant	-.384	.242	-1.58	.124	-.88	.112	

Mean dependent var	0.033	SD dependent var	0.119
R-squared	0.205	Number of obs	300
F-test	10.015	Prob > F	0.000
Akaike crit. (AIC)	-784.375	Bayesian crit. (BIC)	-762.152

*** *p<.01, ** p<.05, * p<.1*

جامعة النَّجاح الوطنيَّة
كليَّة الدّراسات العليا

أثر تمهيد الدخل وجودة الارباح على تقييم الشركات: حالة الشركات الفلسطينية

إعداد
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إشراف
د. رأفت الجلاد

قدمت هذه الرسالة استكمالاً لمتطلبات الحصول على درجة الماجستير في التمويل بكلية الدراسات العليا في جامعة النجاح الوطنية في نابلس، فلسطين.
2022م

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الملخص

تعتبر المحاسبة من الأدوات الهامة التي تستخدم لتقييم نتائج اعمال الشركات من خلال ما تقدمه من تقارير مالية يتم اعدادها ضمن معايير محاسبية مقبولة ومتعارف عليها ، من اجل استخدامها لتقييم أداء الشركات من قبل المستثمرين والموردين والدائنين وغيرهم من الذين تربطهم علاقة مع الشركة من اجل تمكينهم من اتخاذ القرارات التي تخدم أهدافهم ومصالحهم، لذلك لا بد ان تتمتع هذه المعلومات بجودة عالية لكي تعكس الأداء الحقيقي للشركات.

تهدف هذه الدراسة الى التعرف على تأثير تمهيد الدخل وجودة الأرباح على تقييم الشركات المدرجة في سوق بورصة فلسطين ، ويعتمد الباحث في هذه الدراسة على مجموعة من النظريات التي تحاول تفسير العلاقة بين هذه المتغيرات خاصة نظرية السوق الكفؤ والاشارة والوكالة وغيرها. يعتمد الباحث على استخدام بيانات تغطي الفترة ما بين 2010 الى 2019. تم استخدام بيانات مقطعية زمنية للشركات الغير المالية المدرجة في سوق فلسطين المالي وقد بلغ عددها 30 شركة في نهاية عام 2019.

اشتملت متغيرات الدراسة على متغير العائد على حقوق الملكية (ROE) ومقياس (Tobins' Q) في قياس تقييم الشركات المدرجة في سوق فلسطين ، تم تصنيف الشركات الى شركات ممهدة وغير ممهدة باستخدام نموذج(Eckel)، كما تم قياس جودة الأرباح باستخدام خصائص السلسة الزمنية المتمثلة : الاستمرارية وحسن التوقيت وجودة الاستحقاق ولتحقيق أهداف هذا البحث استخدم الباحث اختبار (FGLS).

تشير النتائج إلى أن جودة الأرباح كما تم قياسها بالتوقيت المناسب لها تأثير سلبي بشكل كبير على (ROE) و (Tobins' Q) ، كما أن جودة الأرباح كما تم قياسها بالمستحقات تؤثر بشكل إيجابي على العائد على حقوق الملكية (ROE) . يؤثر تمهيد الدخل إيجابيًا بشكل ملحوظ مع العائد على حقوق الملكية (ROE).

الكلمات المفتاحية: تسوية الدخل، إدارة الأرباح، الثبات، جودة الأرباح، نموذج إيكل، فلسطين.

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