Abstract

This study aims at achieving two basic objectives. First: discover the extent of income smoothing phenomenon that exists in the Jordanian firms listed in Amman Stock Exchange by using risk-adjusted returns Second: investigate the relationship between the financial indicators derived from firm's annual reports and stocks abnormal market returns, and the influences of size, firm value, and type of sector variables this relation.

The results indicate that companies report smooth income have significantly higher cumulative average abnormal returns than firms that do not. When size is considered, that the smooth size firms is less in total assets than non smooth for large services and small industrial companies, with no significant statistical differences except from small industrial firms.

The regression runs used on the model and show that the valuation of firms is statistical significantly associated with the magnitude of earnings rather than earnings stream. Finally, multiple regression used to test the relation between the independent variables (size, income smoothing and type of sector) and abnormal returns as dependent variable and the results indicate a significant relationship between abnormal returns and size dummy variable but no significant relationship with others dummy variables.

The researchers recommended, that the audit profession needs to take note of the substantial effect that income smoothing has on the financial statements, and they will need to adjust their auditing techniques and principles and depend on book value as information conducted on daily bulletin in financial markets express on fair value that may be transfer the financial market to investment market more effectiveness from bad speculative market.