

Accuracy of earnings forecasts: evidence from Ghana.

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ABSTRACT

This study examines the accuracy of the earnings forecasts contained in the prospectuses for initial public offerings (IPO) and rights offerings (RO) of public companies listed on the Ghana Stock Exchange during the period from 2004 to 2011. The study also examines the bias in those earnings forecasts and the association between the accuracy of the earnings forecasts and the following firm characteristics: age of the firm, firm size, auditor quality, forecast horizon and business risk.

The results indicate that, overall, the earnings forecasts included in the prospectuses are not accurate and tend to be optimistic. However, comparing IPO with RO, the earnings forecasts for RO are more accurate and pessimistic while those for IPO are less accurate and optimistic. Also, whereas there is no significant difference in forecast accuracy between RO and IPO, the same is not true for auditor quality; the Big-4 auditing firms are associated with significant higher forecast accuracy than the Non-Big-4 auditing firms.

Regarding relationships, significant inverse correlations exist between forecast accuracy and two of the firm characteristics: age and size of the firm. However, in explaining the variance in forecast accuracy, the firm characteristics that have significant effect are auditor quality, forecast horizon, and size of the firm. From these results, it is recommended that future investors pay more attention to the age of the firm, size of the firm and auditor quality in evaluating the accuracy of earnings forecasts contained in prospectuses issued for the Ghana Stock Exchange.

Keywords: Earnings forecasts, forecast error, Ghana Stock Exchange.