

Accrual anomaly in Greek stock market: The effects of growth and accounting distortions accrual components on firm's future profitability and stock performance.

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Abstract

Following our previous work on the existence of the accrual anomaly in the Greek stock market, in this paper we investigate the effects of accountings accruals on future profitability using a decomposition of accruals in two components, growth defined as growth rate in sales and accounting distortions namely accounting related factors. Our preliminary results indicate that the accrual component contributing most on future earnings is accounting distortion while the accrual effect on stock price performance is driven by the component attributable to growth. The implications for the Greek stock market are the possible reduction of financing constraints due to the overpricing on the part of accounting distortions, leading to raise the value of the investment by firm executives as a realistic response to the reduction in the cost of capital.

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