

# The accrual anomaly in the Greek stock market

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## Abstract

Extensive accounting and finance literature documents the negative association of accounting accruals with future earnings and stock price performance. This negative relationship was first demonstrated in the US capital market and is called accrual anomaly, and suggests that firms with high (low) reported accruals in a fiscal period tend to have low (high) future profitability and stock returns. Investors tend to overestimate accruals when forming earnings expectations, but they are surprised when accruals demonstrate low persistence in the future. Further, it was showed that hedge-trading strategies, constructed by purchasing low accrual firms and selling high accrual firms, generate positive risk-adjusted returns. Subsequent research in the US capital market presents extended evidence on the robustness of the accrual anomaly, but there is no consensus on what causes the accrual anomaly.

Further, the accrual anomaly was investigated in an international setting. It was showed that accrual overweighting occurs outside the US capital markets and its occurrence is associated with specific accounting and institutional factors (legal tradition, shareholder protection, permission to use accrual accounting and ownership concentration). It was also provided preliminary evidence on the magnitude of the accrual effect on stock returns throughout the world.

Anomalies by their nature challenge existing theory and offer a promising avenue of empirical research. The accrual anomaly directly tests capital market

efficiency with respect to publicly available accounting information. The potential for generalizability and the reasons for accounting anomalies, as well as their implications for market efficiency, continue to attract researchers' interest.

The motivation of this paper is to seek to provide insights into the accrual anomaly by analyzing a sample of firms listed on the Athens Stock Exchange. It is the first paper, to the best of our knowledge, that will try to provide evidence about the occurrence of the accrual anomaly in Greece as a country itself. In particular the objective of the paper is to investigate the possible occurrence and economic significance of the negative relation between accounting accruals and stock returns.