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Accounting Accruals and Stock Returns: Evidence from European Equity Markets

Georgios A. Papanastasopoulos

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Abstra

In this p ... accruals and percent ... e abnormal returns f ... nomic significa ... traditional accru ... sting evide ... on stock returns b ... individu ... ent, higher equity-m ... wer analyst optimism ... have legal protecti ... ccounting is permitte ... nings opacity does not appear to exhibit a significant influence. Overall, the evidence

suggests that cross-country differences in culture, equity-market setting, analysts' research output, investor protection, and ownership structure play an important role in explaining variation on the magnitude of the accrual anomaly in Europe.

Acknowledgements

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Notes

† The paper is dedicated to the memory of my father, Antonios Papanastasopoulos, who died unexpectedly on 14 October 2013. Paper accepted by Guochang Zhang.

[1]The Pin … sian capital markets

[2]The leg … operates can have … investor protectio

[3]In a … folios on work … ustralia and the UK, … they docume … nch (1993) three-fa … sk-adjusted alphas a … , Germany, Italy, Jap … ignificant alphas, …

[4] Pincus et al. (2007) use the anti-director index and the legal enforcement index as measures of shareholder protection and find conflicting results: investors overestimate the lower persistence of the accrual component of earnings in countries with weaker outside shareholder rights and stronger legal enforcement.

[5] I also perform initial data screenings for basic coding errors via the methods outlined in Ince and Porter (2006).

[6] All results remain qualitatively similar when I repeat the analysis using firm-level variables that are converted to local currency for all countries.

[7] Fama and French (2008) argue that size and book-to-market adjusted returns are almost similar to factor alphas from the Fama and French (1993) three-factor model.

[8] Hung's (2001) accrual intensity index is based on accounting standards associated with goodwill, equity method, depreciation, purchased intangibles, internally developed intangibles, research and development costs, interest capitalisation, lease capitalisation, allowance of the percentage of completion method, pension accounting, and accounting for other post-retirement benefits.

[9] Leippold and Lohre (2012) document that hedge quintile portfolios based on working capital accruals generate a country-average annualised alpha from the Fama-French three-fa … of my sample (… my study are not i … average returns i …) are an abnorma … al return of 0.065 ba … g evidence from the … urns obtai … from work…

[10] Size ar … riables in regressi… cash flows, asset gr… an et al. (forthco… nomaly in an internati…

[11]Results are qualitatively similar if I instead use the Petersen (2008) estimation procedure, clustered by country.

[12]I use the natural logarithm of LIQ and ACOV when I include them in the regressions as a result of the extreme variation of these characteristics (the standard deviations of LIQ and ACOV are about 436 and 453, respectively).

[13]Mandatory adoption of International Financial Reporting Standards on 1 January 2005 led to changes in the accounting regimes of European Union countries. Thus, I perform sub-period regression analyses (up to 2004) for both the accrual index and the earnings opacity index and find qualitatively similar results.