Do accrual minimise (maximise) stock risk (return)?: evidence from Indonesia

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Abstract: This study investigates the ability of accruals as earnings component to explain stock risk and its return. We believe managers use accruals to maximise firms’ value through minimising stock risk and maximising stock return. Using Indonesian data, we find a negative relation between total accruals to stock risk, especially for loss and small firms. We also present a positive relation between total accruals to abnormal return, particularly in profit and large firms. Those phenomena indicate that investors use higher accruals to produce lower stock risk and higher abnormal return. This study contributes to market-based accounting research.

Keywords: abnormal return; accruals; stock risk.


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