

Accruals and its Impact on Cost of Capital: An evidence from Pakistan



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ABSTRACT

This paper has the prime focus on investigating the ways in which firms can build sustainability and competitiveness in their business operations. It is very important to know that firms nowadays are continuously struggling to endure and maintain their long term position in the industry. However, research proved that one positive way that leads towards sustainability is balancing the cost of capital. Our research tends to find out that how companies working in Pakistan can reduce their cost of capital and what are the factors that have a major influence over the cost of capital. This piece of work has revolved around accrual as being the major factor affecting the cost of capital along with various controlling variables like leverage, size of the firm, book to market ratio, long term growth etc. In order to examine the affiliation between the cost of capital and accruals, pooled regression model has been used consisting of constant coefficients and multidimensional analysis technique. The data has been collected from COMPUSTAT Global for Pakistani firms listed on Pakistan Stock Exchange for 20 years ranging from 2000 to 2019. The results showed that there is substantial association between accruals and cost of capital. The appropriate management of accruals and their good quality can contribute appreciably in minimizing the companies' cost of capital. The findings also revealed that other factors like leverage, long term growth, size of the firm etc. are also impacting the cost of capital. Moreover, the study enriches the literature knowledge and gives valuable insight to the users of this information. The findings can provide the stakeholders like directors and managers with generous knowledge on how to minimize the cost of capital by taking care of accruals and other factors. It will also accommodate the shareholders, investors and lenders to examine how well a firm is managing its accruals as it has a direct and positive association with cost

of capital. They will have keen interest in knowing the operational position of the firm before they are part of the company financing. The results will not only assist the stakeholders in their decision makings but also academicians and practitioners can use the information to further explore the dynamics of this topic which makes this study a vivacious piece of work for the literature.

TABLE OF CONTENTS

CHAPTER 1	1
1.1 Introduction.....	1
1.2 Research Objective	3
1.3 Rationale of the study	3
1.4 Research Questions.....	4
1.5 Significance of the Study.....	4
CHAPTER 2	6
2.1 Literature review.....	6
2.1.1 Accruals	6
2.1.2 Cost of Capital	9
2.2 Theoretical Framework.....	18
2.3 Hypothesis Development.....	19
CHAPTER 3	21
3.1 Sample Selection.....	21
3.2 Empirical Methodology	22
CHAPTER 4	25
4.1 Findings & Discussion.....	37
CHAPTER 5	39
5.1 Conclusion	39
5.2 Recommendations.....	41
5.3 Limitations to the study	41
<i>References</i>	42
Appendices.....	45
Appendix A.....	45
Appendix B	47
Appendix C	47
Appendix D.....	49
Appendix E	52

LIST OF TABLES

TABLE 1 SUMMARY STATISTICS.....	25
TABLE 2 SUMMARY STATISTICS BY INDUSTRY.....	29
TABLE 3 CORRELATION MATRIX.....	31
TABLE 4 COST OF EQUITY	33
TABLE 5 COST OF DEBT.....	35