

Impact on Cost of Equity of Accounting and Disclosures

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Abstract : The study examined the effect of accounting choice and level of disclosure on the firm's implied cost of equity in Indian environment. For the study accounting choice was classified as aggressive or conservative depending upon the firm's choice of accounting methods, accounting policies and accounting estimates. Level of disclosure is the quantum of financial and non-financial information disclosed in firm's annual report, essentially in note to accounts section, schedules forming part of financial statements and Management Discussion and Analysis report. Regression models were developed with cost of equity as a dependent variable and accounting choice, level of disclosure as an independent variable along with selected control variables. Cost of equity was measured using Edward-Bell-Ohlson (EBO) valuation model, to measure accounting choice Modified-Jones-Model (MJM) was used and level of disclosure was measured using a disclosure index essentially drawn from Botosan study. Results indicated a negative association between the implied cost of equity and conservative accounting choice and also between level of disclosure and cost of equity.

Keywords : aggressive accounting choice, conservative accounting choice, disclosure, implied cost of equity

Conference Title : ICAF 2015 : International Conference on Accounting and Finance

Conference Location : Amsterdam, Netherlands

Conference Dates : May 14-15, 2015