

The Effect of Accounting Quality on Contribution-In-Kind Valuation

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Abstract : This paper examines the effect of accounting quality on the process in which stock price is determined by focusing on contribution-in-kind valuations using Korean setting. In Korea, a number of chaebol firms have transformed into holding company system starting in 2003. With an attempt to gain as much voting right, management sold shares of subsidiaries to purchase shares of the holding company. In so doing, management of these firms received share issues for the contribution in kind that has been made to obtain additional shares of the holding company. The price of these share issues against contribution in kind is allowed to be discounted up to 30%. Using this interesting setting in Korea, this paper examines whether accounting quality affects the extent of the discount applied to the share issues. If the accounting quality of the firm for which the management is receiving share issues is poor, the extent of discount is likely to be high. The extent of discount is likely lower for firms with superior accounting quality. Using 24 cases, we find that, on average, the extent of discount is larger for share issues in which the accounting quality, proxied by the absolute value of discretionary accruals, is poor. This paper provides insight by examining the effect of accounting quality on the stock market. It sheds light on the intersection between finance and accounting research and should be of interest to researchers and practitioners.

Keywords : Accounting quality, Contribution-in-kind, discount, holding company

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