Percent accruals and the accrual anomaly: Korean evidence
6. Concluding remarks

Using percent accruals, we document the existence of the accrual anomaly in Korea, which is not evident when using traditional accruals. Our finding is robust to other size proxy deflators, sample selection criteria and other research design choices. We also identify the source of relatively low returns in the lowest traditional accrual decile. These low returns eliminate any abnormal returns of the accruals-based trading strategy in the Korean stock market.

The most important take-away from this study is that using size proxies, including total assets, to deflate accruals can be potentially problematic when testing for the accrual anomaly. When size proxies are used to deflate accruals, poorly performing firms with both negative accruals and negative cash flows are sorted into the lowest accrual decile. As a result, these firms yield extremely low returns, dampening the stock returns in the lowest traditional accrual decile. In contrast, when percent accruals are used to measure accruals, most of the firms in the lowest percent accrual decile have large positive cash flows, while poorly performing firms are spread around the middle deciles. As a result, stocks in the lowest percent accrual decile yield significant positive returns.