EFFECT OF DISCRETIONARY ACCRUALS ON FIRM'S CORPORATE DIVIDEND POLICY - EVIDENCE FROM SRI LANKA

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ABSTRACT

Earnings management is becoming an area of interest to many stakeholders including researchers, after several accounting scandals. Also, it is an important duty of a financial manager to formulate the company's dividend policy that is in the best interest of the company. The study aims to identify the impact of earning management measured through discretionary accruals on dividend policy of listed companies in Sri Lanka. The study uses annual data of 57 non-financial companies listed in Colombo stock exchange representing five sectors based on highest market capitalization during the period from 2015 to 2018. Discretionary accruals (DA) were used as a proxy for earnings management which is obtained from cross-sectional modified Jones (1995) model while dividend payout ratio is taken as a proxy for dividend policy. Firm Debt (DEBT), Liquidity (LIQ), Operating Cash Flows (CFO), Return on Equity (ROE) and firm Size (SIZE) have been introduced as control variables to make model strongest. The data were analyzed using correlation and regression analysis. The results reveal that discretionary accruals have negative impact on the dividend payout policy of Sri Lankan companies listed in the Colombo Stock Exchange. In addition to that LIQ, ROE, CFO show positive significant impact on the dividend payout while DEBT shows insignificant impact on the dividend payout policy of Sri Lankan Companies. In an environment whose reported earnings are viewed with some extent of skepticism, cash dividends will provide a strong signal to investors of true financial strength and of the credibility of earnings reports.

Keywords: Earning Management, Discretionary Accruals, Dividend Payout, Modified Jones Model.