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Impact of External Financing Methods on Firm's Future Return Focusing on Working Capital Accruals

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ABSTRACT

In this study, the Impact of external financing methods on firm's future return focusing on working capital and long term accruals were paid. To this end, 80 companies listed in Tehran Stock Exchange during the period 1384 to 1388 were studied and multivariate linear regression model using fixed effects by panel data approach was used. The results from this study shows that under conditions of low levels of working capital accruals, external financing through the capital has significant negative relationship with future stock returns. But the relationship between the activities financing through debt and future stock returns, in low and high levels of working capital accruals is not significant. Consequently, the activities financed through debt, have no effect on future stock returns.
KEYWORDS: External financing activities, Working capital accruals, stock future return.
JEL classification: G10, M4

1. INTRODUCTION

Commercial units require finance resources for various reasons. Using the correct methods for implementation of profitable projects can play main role in order to increase the wealth of shareholders. Each corporate in financing decisions is facing both internal and external sources of finance. Internal sources include cash from operating activities, sale of assets and accumulated profits and external sources include issuing securities, such as issuing equity, bond, receiving financial facilities from banks and etc. issuing equity has different reactions of the shareholders. Also, the use of lending and borrowing due to problems such as lack of timely payment of debt, financial failure and ultimately bankruptcy will have different effects on stock prices. External resources are those resources that the Companies are attempting to attract investment by making debt or issuing new shares because of Lack of sufficient internal resources to fund the company's requirements. Makingdebt means borrowing or issuing bonds that towards the company is committed pay defined benefit at certain times and pay nominal or taken loan on certain time. Specified price or rate of interest of holders of debt securities and priority of the repayment of its principal and interest with respect to the put these securities from the perspective of investors in securities group with Low risk[6]. Financing through bank loans is effective on reducing problems related to representation and information asymmetry. Existence of banking relations in addition to providing a good picture of the company's situation increases its ability to obtain external financing. From this discussion can be concluded that firms with more bank debt access to external resources more readily and hold less cash[13]. Financing through the issue of equity is the most expensive source of funding for company, because the high cost of equity is combined with flotation costs. The stock market of large companies shows positive reaction to the issue of equity. The managers of companies may think that company's stock is become less than the real value and may not be willing to release new stocksand when stock prices increase, they issue new shares. The company which is financed only through equity will be deprived from tax savings of interest costs and its market value will be less than a lever company [17].

Accounting profit is the most important source of information about assessment of profitability capability and is divided into cash and accrual components and is measured based on the accrual basis. The general interpretation about accruals is that accrual is result of heroic actions during of the management in registration and recognition of the events [3]. Malformation of external financing is related to negative relationship between stock returns and external financing activities External financing activities, reduce future stock returns. Reducing investment activities lead to increase future stock returns. Also, many studies have confirmed a negative relationship between the level of accounting accruals and future stock returns and is called accruals anomaly. Firms with high accruals (low) experience low future returns (high).According financing hierarchy theory, Companies primarily prefer financing from retained earnings. In other words, Firms management, internal sources of external finance as a priority. Namely, management companies, financing prefer from internal sources in comparison with external sources [7], [4]. In 1958, the Modigliani and Miller in their article entitled "the cost of capital, firms finance and investment theory" showed that finance companies has no effect on the companies market current value. Hypothesis of no correlation between them suggests that the select of

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corporate finance policy can not change the value of the company, unless lead to create the change in cash flows [11]. In relation to the impact of external financing on future stock returns, incorrect evaluation hypotheses have been proposed about securities and over-investment. Both hypotheses emphasize the negative relation between external financing and stock returns. According to the false valuation hypothesis of securities, the relationship between issuing equity and future stock returns is stronger than the relationship between debt and future stock returns. Over-investment hypothesis, emphasize the direct relation between external financing of the companies and over-investment decisions of the managers. Whatever the amount of issuing securities by corporations is greater; their investment will be more. As a result, future stock returns are reduced further [12]

2. A review of the research literature

Papanastasopouloset al (2011), followed by Bradshaw et al (2006) and Cohen and Lyes researches in the same year, during the research examined the relationship between finance Malformation and stock return with the focus on working and long-term capital accruals. Their results in the level of company show that the ability of external financial metrics in forecasting future stock returns after controlling for accruals of working capital is strong. But this ability after controlling the long-term accruals is significantly reduced [14]. Butler et al (2009), in their study found that the net external financing is able to predict future stock returns and the relationship between them is negative; but the components of net external financing have no this ability. They believe that the cause of abnormal detection is financing activities of firms which with changes in its investment policy, company return show negative react relative to the market schedule manage[2]. Lam and Wei (2009), in their study titled "External Financing, Access to Debt Markets, and Stock Returns" found that there is a significant negative correlation between net external financing and future stock return and the main part of the external financing anomaly doesn't describe with a combination of the accruals anomaly and asset growth anomaly [9]. Hahn and Lee (2009) examined the effect of debt financing through the stock return. They found that most companies that are financed through debt reflect the acquisition of a guaranteed investment and investment amount is reflected in the stock price. Firms with higher debt capacity (after controlling for other risk characteristics that are important in determining stock returns), earn more efficiently than companies with low debt capacity. The reason is that firms with more capacity have more valid than those of other firms [5]. Bradshaw et al (2006), in their study investigated that firms are scheduled financing events to profit from their incorrectly securities pricing in financial markets. They examined relationship between financing activities (via changes in equity and debt) and returns and used to control financing events of net criteria of cash flow from equity and debt. They found that the net criteria of financing through equity and debt, has more power in predicting future stock returns [1]. Richardson and Sloan (2003) were the first people who examined relation between external financing activities and accruals anomaly and showed that the negative flow in returns of firms will be stronger with higher accruals following external financing activities and after controlling financial transactions and there is a significant negative relationship between external financing and future stock returns [16]. Rahnamaye Roodposhti and colleagues (2009) examined the relationship between cash from stock returns and financing activities in accepted companies in Tehran Stock Exchange during the period 2000 to 2006.The results of their research shows cash flow from financing activities, has no significant relationship with stock returns [15]. Salimi Agha Lotfali (2009) examined the relationship between stock returns and foreign financing methods in 106 accepted companies listed in the Stock Exchange during the period 2002 to 2008.His results showed that the absorption of funds through debt and capital has negative impact on future returns and by increasing them, future stock return is reduced [10]. Najafi Omran (2008), in his study investigated the relationship between methods of financing and future stock returns in 65 companies listed in the Stock Exchange during the period 2000 to 2007.He found that no external funding methods have impact on future stock returns and financing effects and financing effects are independent of the value of the company. Also, net operating assets are financed from foreign sources has a significant effect on future stock returns [12]. Khajavi and Nazemi (2005)investigated the relationship between earnings quality and stock returns, with emphasis on the role of accruals in 96 companies listed in Tehran Stock Exchange during the period 1999 to 2003.Their research results showed that the efficiency of firms is not affected by the amount and components of accruals. Namely, there is not significantly different between the performance of companies with high and low levels of accruals [8].

3. Questions and Research hypotheses

The main research questions are posed as follows:

1) Are working capital accruals able to predict stock returns of firms after them external financing?
2) Are long-term accruals able to predict stock returns of firms after them external financing?

Research hypotheses are:

1. The net impact of external financing on future returns after controlling for total accruals is significant.
2. The net impact of external financing on future returns in high and low levels of working capital accruals is significant.

3. The net impact of financing through capital on future returns after controlling for total accruals is significant.
4. The net impact of financing through capital on future returns in high and low levels of working capital accruals is significant.
5. The net impact of financing through debt on future returns after controlling for total accruals is significant.
6. The net impact of financing through debt on future returns in high and low levels of working capital accruals is significant.

4. RESEARCH METHODOLOGY

This study based on goal is applicable and its data has approach of after event (from the past). This research in terms of data collection is descriptive - correlation. The statistical population of this study includes companies that have had activity in the Tehran Stock Exchange during 2005 to 2009. Only firms which examined in this study have all the following characteristics:

1) The fiscal year end of sample firms is March 29 of each year.
2) Holding companies, banks, insurance, investment and financial intermediation are not samples.
3) Companies before 2005 has accepted in the Stock Exchange and be active during the 2005 to 2009.
4) Companies should during study period, has no trading interruption more than 5 months.
5) During the study period, external financing involve through issuing equity or borrowing from banks or issuing bonds.

5. Methods and data collection tools

Data collection method in relation to the theoretical foundations is library and archival. In the first section, done studies about research subject was collected from scientific and research papers, student projects, Internet website and was studied.In the second part, in order to achieve information to processing assumptions, the official website of the Stock Exchange organization, databases such as RAHAVARD NOVIN Softwarewisely used.

6. Method of data analysis

The final analysis is done using multivariate regression models using EVIEWS software. To examine the linear relationship between the explanatory variables, variance inflation factor (VIF) is used.Also, to analyze the data are usedLEAMER and HOUSMANtests and for overall analysis of regression model, F-statistics and for the significance of coefficients of regression model, t-statistics are used.

To test of the Hypothesis 1, based on "The net impact of external financing on future returns after controlling for total accruals is significant", we use the following regression model.

$$RET_{t+1}= \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta XFIN_t + \gamma_4 TACC_t + u_{t+1}$$

To test of the Hypothesis 2, based on "The net impact of external financing on future returns in high and low levels of working capital accruals is significant", we use the following regression model.

$$RET_{t+1}= \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta XFIN_t + u_{t+1}$$

To test of the Hypothesis 3 and 5, based on "The net impact of financing through capital on future returns after controlling for total accruals is significant" and "The net impact of financing through debt on future returns after controlling for total accruals is significant", we use the following regression model.

$$RET_{t+1}= \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta EQUITY_t + \gamma_4 \Delta DEBT_t + \gamma_5 TACC_t + u_{t+1}$$

To test of the Hypothesis 4 and 6, first CACC for each year is calculated; then their average is calculated for each companyand based on the median of these variables, classify firms into two groups: high and low is done and use the following regression model.

$$RET_{t+1}= \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta EQUITY_t + \gamma_4 \Delta DEBT_t + u_{t+1}$$

6.1. Definition of Operational Variables

Type of variable	Variable name	Symbol	How to Measure
Independent	Net cash flow from financing activities of equity	ΔEQUITY	$\Delta EQUITY_t= \Delta(TA_t -TL_t)-NI_t$
			TA: Total Assets
			TL: Total liabilities
			NI: Net profit
	Net Cash Flow from Financing Activities Debt	ΔDEBT	the difference between cash flows received from issuance of new debt and cash flows used for debt repayments.
	Net external financing of firms	ΔXFIN	$\Delta XFIN_t= \Delta EQUITY_t + \Delta DEBT_t$
	Working capital accruals	CACC	$CACC_t= \Delta(CA_t-C_t) - \Delta(CL_t-STD_t)$
			CA: Current assets
			C :Cash
			CL: Current Liabilities
			STD: Current portion of long-term debt

	Long-term accruals	NCACC	$NCACC_t=\Delta(TA_t-CA_t) - \Delta(TL_t-CL_t)$
Dependent	Returns	RET	$RET=((1+a+b)P_t-(1+ca)P_{t-1}+D)/(1+ca)P_{t-1}$
			a: Percent of the capital increase
			c: 1000 Rials
			b: Percent increase in capital reserves
			d: Dividends per share
Control	Size	SIZE	Natural logarithm of total assets
	Book value to market value	BVMV	Natural logarithm of the ratio of book value to market value

Source**:** Papanastasopoulos& et al(2011)

7. Findings of research

7.1. Variables Research Statistics Descriptive

Descriptive statistics for study variables are presented in Tables 1 and 2.

Table 1: Descriptive statistics for variables in regression models 1, 3 and 5

Variables Name	RET	SIZE	BVMV	ΔXFIN	ΔEQUITY	ΔDEBT	TACC
Mean	0.237	27.012	0.613	0.0895	0.0308	0.05875	0.619
Median	0.115	26.888	0.4604	0.0829	0.0351	0.02475	0.572
Maximum	7.341	31.927	4.3495	6.903	0.7848	10.7866	9.853
Minimum	-0.744	24.629	0.0097	-5.4768	-4.1975	-5.1386	0.0387
Standard Deviation	0.698	1.318	0.4915	0.6148	0.3148	0.679	0.6737

Source: Results of researcher

Table 1: Descriptive statistics for variables in regression model 2, 4 and 6

Companies Category	Variables Name	RET	SIZE	BVMV	ΔXFIN	ΔEQUITY	ΔDEBT
Low levels of working capital accruals	Mean	0. 165	27.34	0.56	0.0706	0.0375	0.033
	Median	0.0 75	27.146	0.429	0.4288	0.04	0.0242
	Maximum	2.574	31.927	4.349	0.9575	0.5806	0.5102
	Minimum	-0.57	24.724	0.016	-4.051	-4.1975	-0.4018
	Standard Deviation	0.47	1.474	0.507	0.348	0.316	0.1497
High levels of working capital accruals	Mean	0.309	26.682	0.666	0.108	0.024	0.084
	Median	0.143	26.595	0.496	0.0955	0.0284	0.033
	Maximum	7.341	30.43	2.3206	6.903	0.7848	10.7866
	Minimum	-0.744	24.6287	0.0097	-5.477	-3.8836	-5.1386
	Standard Deviation	0.862	1.046	0.47	0.797	0.314	0.949

Source: Results of researcher

8. Hypothesis test and its results

8.1. Hypothesis test 1

Table 3: Results ofhypothesis test 1

$RET_{t+1} = \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta XFIN_t + \gamma_4 TACC_t + u_{t+1}$				
Variables	**Coefficients**	**t Statistics**	**P-Value**	**VIF**
γ_0	22.218	7.019	0	-
SIZE	-0.826	-7.013	0	1.012
BVMV	0.861	7.559	0	1.007
ΔXFIN	-0.023	-0.379	0.705	1.195
TACC	-0.219	-2.009	0.0457	1.204
	Value	Test	Value	P-Value
R^2	0.574	F Leamer	2.6	0
R^2 **Adjusted**	0.42	Housman	64.93	0
DW	2.37	F	3.77	0

Source: Results of researcher

According to the results of figure 3, P-Value of F Leamer test is less than 0.01; in confidence level 99%, the Null hypothesis is rejected and the procedure of panel data is used. The P-Value of Housman test is less than 0.05. Consequently, the null hypothesis which use fixed effects approach, is rejected. Variance inflation factor

(VIF) for all variables is less than 10 that shows; there is not MULTICOLINEARITY between independent and controlling variables. The coefficient of determination is 57%. This shows that 57% of the stock return variation is explained by the independent and control variables of this model. Camera Watson statistic with value of 2.37, can be verified its lack of correlation between the error components. Probability of F statistic is less than 0.01 and at 99% confidence level, the overall regression model is confirmed. Due to results of the significance of the regression coefficients which can be seen in this figure; Possibility of Variables of company size, Ratio of book value to market value of total accruals at 95% are less than 0.05 and Coefficients of variables of the firm size and total accruals is negative that show there is an inverse relationship between these variables and stock returns. Possibility of external financing Variable at 95% confidence level, is greater than 0.05 and this variable has no significant relationship with stock returns; but, its coefficient is negative. Under controlling conditions resulting of total accruals, performance of external financing activities has no affect on stock returns.

8.2. Hypothesis test 2

Table 4: Results ofhypothesis test 2

$RET_{t+1} = \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta XFIN_t + u_{t+1}$									
Companies with dose CACC Low					**Companies with dose CACC Top**				
Variables	Coefficients	t Statistics	P-Value	VIF	Variables	Coefficients	t Statistics	P-Value	VIF
γ_0	16.058	5.261	0	-	γ_0	31.098	5.555	0	-
SIZE	-0.589	-5.257	0	1.003	SIZE	-1.184	-5.584	0	1.007
BVMV	0.528	5.086	0	1.01	BVMV	1.258	6.129	0	1.014
ΔXFIN	-0.377	-2.066	0.0411	1.011	ΔXFIN	-0.011	-0.144	0.88	1.007
	Value	Test	Value	P-Value		Value	Test	Value	P-Value
R^2	0.53	F Leamer	1.88	0.0035	R^2	0.61	F Leamer	3.29	0
R^2 Adjusted	0.355	Housman	27.35	0	R^2 Adjusted	0.466	Housman	44.59	0
DW	2.44	F	3.04	0	DW	2.32	F	4.23	0

Source: Result researcher

According to the results of figure 4, at Low and high levels of the CACC, P-Value of F Leamer test is less than 0.01; in confidence level 99%, the Null hypothesis is rejected and the procedure of panel data is used. The P-Value of Housman test for Low and high levels of the CACCare less than 0.05 and to estimate data is used fixed effects approach. Variance inflation factor (VIF) for all variables is less than 10 that shows; there is not MULTICOLINEARITY between independent and controlling variables. The coefficient of determination at low and high levels is 53% and 61%, respectively and this shows that 53% and 61% of the stock return variation are explained by the independent and control variables of this model. Camera Watson statistic at low and high levels with value of 2.44 and 2.32, can be verified its lack of correlation between the error components. Probability of F statistic for both low and high levels is less than 0.01 and at 99% confidence level the overall regression model is confirmed. Due to results of the significance of the regression coefficients which can be seen in this figure; Possibility of Variable external financing at low levels is less than 0.05 and its coefficients negative that show there is an inverse relationship between these variables and stock returns. Possibility of this variable at high level of working capital accruals is greater than 0.05 but its variable is negative. Under conditions that level of working capital accruals is low by reduction of external finance, stock returns increase but when level of working capital accruals is high, performance of external financing activities has no affect on stock returns.

8.3. Hypothesis test 3 and 5

Table 5: Results ofhypothesis test 3 and 5

$RET_{t+1} = \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta EQUITY_t + \gamma_4 \Delta DEBT_t + u_{t+1}$				
Variables	**Coefficients**	**t Statistics**	**P-Value**	**VIF**
γ_0	21.434	6.873	0	-
SIZE	-0.796	-6.848	0	1.013
BVMV	0.859	7.714	0	1.008
ΔEQUITY	-0.371	-2.063	0.0402	1.256
ΔDEBT	-0.055	-0.906	0.3659	1.523
TACC	-0.273	-2.473	0.0141	1.417
	Value	Test	Value	P-Value
R^2	0.582	F Leamer	3.82	0
R^2 Adjusted	0.43	Housman	80.76	0
DW	2.4	F	3.83	0

Source: Result researcher

According to the results of figure 5, P-Value of F Leamer test is less than 0.01; in confidence level 99%, the Null hypothesis is rejected and the procedure of panel data is used. The P-Value of Housman test is less than 0.05 and to estimate data is used fixed effects approach. Variance inflation factor (VIF) for all variables is less than 10 that shows; there is not MULTICOLINEARITY between independent and controlling variables. The

coefficient of determination at low and high levels is 58% and this shows that 58% of the stock return variation is explained by the independent and control variables of this model. Camera Watson statistic can be verified its lack of correlation between the error components. Probability of F statistic is less than 0.01 and at 99% confidence level the overall regression model is confirmed. Due to results of the significance of the regression coefficients which can be seen in this figure; Possibility of Variables of external financing through capital andtotal accruals at confidence level 95%, is less than 0.05 and coefficient of these Variables is negative that show there is an inverse relationship between these variables and stock returns. Possibility of variable of the financingthrough debt at confidence level 95%, is greater than 0.05 and its variable is negative. This variable has no significant correlation with stock returns. Hypothesis 3 at 95% confidence level is confirmed and Hypothesis 5 is rejected. So, under conditions of the total control of accruals, with the decline financing through equity salaries, equity return increases.

8.4. Hypothesis test 4 and 6

Table 6: Results ofhypothesis test 4 and 6

$RET_{t+1} = \gamma_0 + \gamma_1 SIZE_t + \gamma_2 BVMV_t + \gamma_3 \Delta EQUITY_t + \gamma_4 \Delta DEBT_t + u_{t+1}$									
Companies with dose CACC Low					**Companies with dose CACC Top**				
Variables	Coefficients	t Statistics	P-Value	VIF	Variables	Coefficients	t Statistics	P-Value	VIF
γ_0	16.273	5.162	0	-	γ_0	30.77	5.221	0	-
SIZE	-0.597	-5.163	0	1.01	SIZE	-1.17	-5.247	0	1.011
BVMV	0.556	5.238	0	1.028	BVMV	1.25	6.031	0	1.02
ΔEQUITY	-0.688	-2.301	0.0232	1.006	ΔEQUITY	-0.059	-0.223	0.8237	1.601
ΔDEBT	-0.147	-0.59	0.5567	1.029	ΔDEBT	-0.017	-0.21	0.834	1.596
	Value	Test	Value	P-Value		Value	Test	Value	P-Value
R^2	0.537	F Leamer	1.86	0.004	R^2	0.61	F Leamer	3.23	0
R^2 Adjusted	0.36	Housman	26.83	0	R^2 Adjusted	0.46	Housman	42.15	0
DW	2.47	F	3.035	0.000001	DW	2.31	F	4.09	0

Source: Result researcher

According to the results of figure 6, at Low and high levels of the CACC (Working capital accruals), the probability of F Leamer test is less than 0.01; in confidence level 99%, the Null hypothesis is rejected and the procedure of panel data is used. The P-Value of Housman test is less than 0.05 and to estimate data is used fixed effects approach. Variance inflation factor (VIF) for all variables is less than 10 that shows; there is not MULTICOLINEARITY between independent and controlling variables. The coefficient of determination at low and high levels is 54% and 61%, respectively and this shows that 54% and 61% of the stock return variation are explained by the independent and control variables of this model. Camera Watson statistic at low and high levels with value of 2.47 and 2.31, can be verified its lack of correlation between the error components. Probability of F statistic for both levels is less than 0.01 and at 99% confidence level the overall regression model is confirmed. Due to results of the significance of the regression coefficients which can be seen in this figure; Possibility of Variables of company size and Ratio of book value to equity market value at confidence level 99%, is less than 0.01. These variables have significant relations with stock returns. The variable coefficient of company size is negative and variable coefficient of ratio of book value to market value is positive that show there is an inverse relationship between company size and stock returns and there is direct and significant relationship between ratio of book value to value of equity market. Possibility of variable of the External financing through capital in low levels of working capital accruals at 95% confidence level is less than 0.05 and its variable is negative. As a result, this variable has an inverse and significant relationship with stock returns. The possibility of variable of the external financing through investment in high levels and the possibility of variable of the external financing through debt in low and high levels of working capital accruals at 95% confidence level is greater than 0.05, and its coefficient is negative. As a result, these variables have no significant relationship with stock return. Consequently, in conditions that working capital accruals level of firms is low; with reduction in external financing through equity, equity return increases. But the performance of activities of external financing through debt has no impact on stock returns. Assumption results in low levels are consistent with Papanastasopoulos et al (2011) and Salimi Agha Lotfali (2009); but are in conflict with the investigation of Butler and colleagues (2009), Bradshaw et al (2006), Richardson and Sloan (2003), Roodposhti and et al (2009), Najafi Omran (2008) and Khajavi and Nazemi (2005). In conditions that working capital accruals level of firms is high, the performance of activities of external financing through debt or Equity has no impact on stock returns. Hypothesis 4 and 6 results in high levels of working capital accruals do not match with hierarchical theory, hypotheses improper valuation of firms and over-investment of managers; but is consistent

with disaffiliation of the Modigliani and Miller hypothesis of no association (1958). Also, is consistent with the studies of Butler et al (2009), Bradshaw et al (2006), Roodposhti and et al (2010), Najafi Omran (2009) and Khajavi and Nazemi (2006). But, it is in conflict with researches of the Papanastasopoulos et al (2011), Richardson and Sloan (2003) and Salimi Agha Lotfali (2009).

9. Conclusions

In this study, is investigated the effect of external financing methods on future returns of companies with a focus on working capital accruals during 2005 to 2009, considering 400 observation of years - company. In summary, in present study the hypothesis 2, 3 and 4 under conditions of low levels of working capital accruals are confirmed. Companies are used funds from financing that have been made in order to develop and increase the efficiency of their current and future operations and to enhance shareholder wealth. But according to the reviews, studied companies in creating value and returns for shareholders not only do not get success**,** but conducted tests showed reduction of productivity and wealth of shareholders. Other research hypotheses are rejected. Lack of attention of capital market to information about reported financing activities in financial statements, existence of other factors that may be has impact on the relationship between financing activities and future stock returns and uncertainty about the optimal use of funds provided by management can be one of the causes of market Indeterminate reaction to the phenomenon of funding.

10. Applied Suggestions from Research results

- ❖ According to the findings of this study based on presence inexperienced investors in the capital market, is recommended that investors respond more accurately to changes in accruals and get help from financial analysts in make decisions of investment.
- ❖ It is recommended that investors and analysts assess financing of more accurately, when analyzing accounting data; and managers should be cautious in using this resource.

11. Suggestions for Future Researches

- ❖ This study is conducted with a focus on non-discretionary and discretionary accruals.
- ❖ This study will conduct in different industries as separate and the results will be analyzed and evaluated in various industries.

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