The Effect of Related Party Transaction on Financial Statement Comparability: Evidence from an Emerging Market

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Abstract

A primary interest of this study is the effect of related party transactions (RPTs) on financial statement comparability. Related party transactions are transactions with related individuals such as shareholders, members of board of directors, as well as transactions with affiliated companies. This study examines the effect of three aspects of related party transactions on the comparability of financial statements information. These aspects include the proportion of related party transactions to total sales, the proportion of receivables and payables to RPTs, and the volatility of RPTs. The results of empirical analyses show that the comparability decreases as related party transactions increase. This finding suggests that related party transactions lower usefulness of accounting information. The results also provide evidence that remaining balance of receivables, and payables to related party transactions and the variability deteriorate the comparability. Additional tests show that while PRTs tend to increase analysts forecast errors, the comparability can mitigate this adverse effect. The results suggest that providing detailed information with respect to related party transactions improves the comparability of financial position and operating results and therefore, increases the usefulness of accounting information.

JEL Classification: M41

Keywords: related party transactions (RPTs); financial statement comparability

Data availability: All data used in this study are publicly available from the sources identified in the text.