

Payment days and accounting standards: Spanish case¹

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ABSTRACT

The financial literature shows a consensus on the positive relationship between the suitable management of working capital and profitability for the company and shareholders. However, this is not the case when this relationship is analyzed in terms of components of the cash conversion cycle (CCC). In this context, the EU has attempted in recent years to facilitate the financial management of companies' working capital by reducing days payable outstanding (DPO). As an EU member country, Spain has transcribed this objective through an accounting standard that obliges reporting the true DPO in financial statement notes. Thus, given the lack of consensus on the CCC effects and the empirical opportunity of the Spanish Accounting Standard (SAS), we check if the normal DPO estimation is statistically valid and if CCC effects on company profitability and shareholder wealth differ depending on the DPO estimation method. The results show that the normal DPO estimation is not statistically valid, and only when we use its true value (SAS) do we find these negative and positive effects from days sales and DPO, respectively.

KEYWORDS: cash conversion cycle, day payment outstanding, accounting standard.

JEL: G31, M41, M48.

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