
Do Discretionary Accruals Predict Future Cash Flows? Evidence on the Role of Ownership Structure in an Emerging Market

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Abstract:

Purpose: This study examines whether discretionary accruals contain information about subsequent operating performance and whether ownership structure conditions that association in an emerging market.

Design/Methodology/Approach: The analysis uses a balanced panel of 150 non-financial firms listed in the Pakistan Stock Exchange (PSX) over 2010-2023. Discretionary accruals are estimated with the Modified Jones Model, while future profitability is measured as future cash flow from operations. Period fixed-effects regressions control for current cash flow, non-discretionary accruals, board and audit-committee characteristics, institutional ownership, ownership concentration, firm size, and sales growth.

Findings: Discretionary accruals are positively associated with next-year cash flow, consistent with accruals containing information about future cash-generating capacity. In the interaction specification, the conditional associations for institutional ownership and ownership concentration are positive and significant, whereas board independence and audit-committee attributes do not significantly condition the accrual-cash-flow relation.

Practical Implications: The results suggest that concentrated and sophisticated owners may improve the informativeness of managerial accounting discretion in a family-dominated ownership environment. Because the design identifies predictive associations rather than managerial intent, the findings are interpreted as evidence of informative accruals, not as definitive proof of efficient earnings management.

Originality/Value: The study contributes context-specific evidence on the governance of accounting discretion and highlights ownership structure as a more consequential monitoring channel than formal board structures in this setting.

Keywords: Discretionary accruals, earnings management, future cash flow, corporate governance, institutional ownership, ownership concentration.

JEL classification: G32, G34, M41.

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1. Introduction

Reported earnings are central to valuation, contracting, and stewardship, yet they are not mechanically determined. Accrual accounting requires managers to estimate credit losses, asset lives, provisions, revenue recognition, and the timing of expenses. This discretion can be used opportunistically to obscure underlying performance, but it can also enable informed managers to communicate private information about future operations.

The empirical problem is therefore not simply whether managers exercise accounting discretion; it is whether the discretionary component of accruals is associated with subsequent economic outcomes and whether governance arrangements shape that association.

The distinction matters particularly in emerging capital markets. Ownership is often concentrated, family control is common, external enforcement is developing, and formal governance provisions may be adopted faster than the institutions needed to make them effective. Under these conditions, conventional agency conflicts between managers and dispersed shareholders coexist with conflicts between controlling and minority owners.

Concentrated owners may monitor managers closely and encourage informative reporting, or they may facilitate private-benefit extraction. Institutional investors may provide expertise and independent scrutiny, but their influence depends on the size of their holdings and their willingness to intervene. Board and audit-committee structures may likewise be substantively effective or primarily formal responses to listing requirements. A recent systematic review confirms that concentrated ownership, uneven investor protection, and weak enforcement remain central determinants of earnings-management incentives in emerging economies (Gokhale and Pillai, 2024).

Pakistan provides a theoretically revealing setting in which to examine these competing possibilities. Country's corporate governance framework has undergone a gradual yet significant transformation over the past two decades. The Securities and Exchange Commission of Pakistan (SECP) introduced the first Code of Corporate Governance in 2002 to enhance transparency, accountability, investor protection, and board effectiveness among listed companies.

Recognizing evolving international governance standards and the growing complexity of corporate operations, the Code was comprehensively revised in 2012, with further amendments issued in 2014 to strengthen board independence, directors' training, risk management, internal controls, and disclosure requirements. Following the enactment of the Companies Act, 2017, the governance framework transitioned from a voluntary code to the legally enforceable Listed Companies (Code of Corporate Governance) Regulations, 2017, reflecting a more robust regulatory

approach. Subsequently, the framework was consolidated and refined through the Listed Companies (Code of Corporate Governance) Regulations, 2019, which further reinforced board diversity, independent oversight, transparency, and corporate accountability in line with international best practices.

This progressive evolution reflects Pakistan's continued commitment to strengthening corporate governance institutions and fostering sustainable corporate performance.

This article asks two focused questions. First, do discretionary accruals predict future cash flow after current profitability and normal accrual-generating conditions are controlled? Second, is this predictive association conditioned by institutional ownership, ownership concentration, board independence, audit-committee independence, or audit-committee meeting frequency? These questions retain the strongest empirical contribution of the underlying research while avoiding an overly broad test of every possible governance–performance relationship.

Using observations for 150 non-financial companies listed at PSX from 2010 to 2023, the analysis estimates discretionary accruals with the Modified Jones Model and future performance with next-year cash flow from operations. Period fixed-effects estimates show a positive association between discretionary accruals and future cash flow.

Interaction estimates indicate that institutional ownership and ownership concentration strengthen this relation at conventional marginal levels, whereas board and audit-committee characteristics do not. The evidence is consistent with accounting discretion having predictive content and with ownership-based monitoring being more consequential than formal governance attributes in the sampled setting.

The study makes three contributions. First, it shifts attention from the magnitude of discretionary accruals to their association with a cash-based future outcome. This distinction is important because future earnings contain a new accrual component and may therefore reproduce estimation choices mechanically. Second, it evaluates ownership-based and board-based governance channels within a common empirical framework, demonstrating that governance attributes should not be treated as interchangeable monitoring devices. Third, it provides historical evidence from a family-dominated emerging market in which the implications of concentrated ownership are theoretically ambiguous.

The paper complements recent Pakistan-specific evidence on whether earnings management is efficient or opportunistic (Shah *et al.*, 2024) by using future cash flow as the focal realization measure and by estimating the conditional role of distinct ownership mechanisms. The claims remain deliberately bounded: a positive predictive coefficient is consistent with informative accounting discretion, but

cannot independently establish managerial intent or eliminate competing explanations.

The remainder of the paper develops the theoretical framework and hypotheses, describes the sample and methods, reports the results, discusses their implications, and concludes with directions for further research.

2. Theory and Hypothesis Development

2.1 Accounting Discretion: Opportunism versus Information

Agency theory emphasizes that information asymmetry and divergent incentives allow managers to alter reported performance for private benefit. Managers may use accrual estimates to meet contractual thresholds, influence compensation, protect employment, or affect market perceptions. Such behaviour reduces reporting reliability and can distort investment, financing, and distribution decisions. Enforcement cases and corporate failures illustrate the potential cost of weak oversight, and prior research documents links between governance weaknesses and aggressive reporting (Dechow *et al.*, 1996; Healy and Wahlen, 1999).

A competing information perspective recognizes that rigid reporting rules cannot encode all firm-specific knowledge. Managers generally possess information about customer quality, expected collections, asset utilization, and future obligations that outsiders do not. Discretion in accrual measurement may allow this information to be incorporated into current earnings. Under this view, some managed accruals smooth transitory noise and improve the ability of current accounting numbers to predict future cash generation (Arya *et al.*, 2003; Subramanyam, 1996).

The same accounting choice may therefore be opportunistic in one context and informative in another; classification depends on its economic consequences rather than on discretion alone. Chen *et al.* (2024) suggest that all the conflicts arise from the principals-agents separation can be reduced through strong corporate governance practices. However, discrimination exists between the corporate governance mechanism in the developed and the developing countries.

Following Siregar and Utama (2008), Jiraporn *et al.* (2008), and Rezaei and Roshani (2012), the empirical strategy evaluates whether estimated discretionary accruals are associated with future cash flow. Cash flow is preferable to future earnings for this purpose because future earnings incorporate a new set of accrual estimates.

A positive conditional association indicates that the discretionary component contains incremental information about subsequent cash-generating performance. It does not demonstrate benevolent managerial intent; rather, it is inconsistent with the narrower proposition that all discretionary accruals are cosmetic and unrelated to future operations.

Recent Pakistan evidence similarly rejects a uniformly opportunistic characterization and reports that the consequences of earnings management depend on governance arrangements (Shah et al., 2024). This contemporary evidence strengthens the case for examining realization outcomes and governance contingencies instead of inferring reporting quality solely from the magnitude of estimated abnormal accruals.

H1: Discretionary accruals are positively associated with future cash flow.

2.2 Institutional Ownership as a Monitoring Mechanism

Institutional investors may possess superior analytical resources, sector knowledge, and incentives to monitor financial reporting. Larger holdings increase the economic return to monitoring and may facilitate sustained engagement with management. Institutional scrutiny can constrain accounting choices that merely inflate current results while permitting estimates that credibly convey future prospects. Earlier evidence links institutional ownership to monitoring and reporting outcomes, although the effect is not uniform across markets or investor types (Chung *et al.*, 2002; Hsu and Koh, 2005).

Recent studies reinforce this conditional monitoring interpretation. Davis and García-Cestona (2023), using 39 years of United States data, document systematic links among institutional ownership, earnings management, and earnings surprises. In China, Ali *et al.* (2024) find that greater institutional ownership is associated with lower discretionary accruals and less real-activities manipulation, with effects that vary by state ownership. Together, these findings suggest that both investor sophistication and the surrounding ownership regime determine whether institutional holdings improve reporting quality.

In an emerging market, institutions may also compensate for limits in external analyst coverage and enforcement. If institutional owners distinguish informative estimation from opportunistic manipulation, the positive association between discretionary accruals and future cash flow should be stronger at higher levels of institutional ownership. Conversely, passive or affiliated institutions may not provide effective monitoring. The predicted direction reflects the monitoring hypothesis while recognizing that the empirical result remains conditional on the institutional setting.

H2: Institutional ownership positively moderates the association between discretionary accruals and future cash flow.

2.3 Ownership Concentration and the Governance of Discretion

Concentrated ownership has two opposing implications. Under the monitoring view, large shareholders possess both the incentive and the voting power to oversee

managers, reduce free-riding, and demand reporting that supports long-horizon firm value. This channel may be especially important where families combine ownership with managerial involvement, thereby reducing the separation between ownership and control.

Under the entrenchment view, however, controlling shareholders may dominate governance structures, influence related-party transactions, and use financial reporting to obscure the extraction of private benefits from minority owners. Cross-country evidence from emerging markets indicates that the reporting consequences of controlling ownership depend on the strength of minority-shareholder protection (Bao and Lewellyn, 2017), while recent Vietnamese evidence shows that the governance–earnings–management relation varies with ownership concentration and state ownership (Nguyen *et al.*, 2024). These findings support an institutionally contingent rather than universally beneficial view of blockholder monitoring.

Which effect dominates is an empirical question? If the monitoring effect is stronger in the sampled firms, concentrated owners should discourage transitory manipulation and favour discretionary estimates that map into future operating performance. A positive interaction between concentration and discretionary accruals would be consistent with this argument, although it would not rule out other costs of concentrated control.

H3: *Ownership concentration positively moderates the association between discretionary accruals and future cash flow.*

2.4 Formal Governance Structures

Independent boards and audit committees are designed to oversee management and financial reporting. Non-executive directors can challenge managerial estimates, while independent audit-committee members and frequent meetings may increase the attention devoted to controls, audit findings, and unusual accounting choices (Xie *et al.*, 2003; Lin and Hwang, 2010). These mechanisms should, in principle, strengthen the relation between discretionary accruals and future economic performance by filtering out choices unsupported by operating fundamentals.

Formal independence, however, need not imply effective independence. Directors may lack firm-specific knowledge, be selected by controlling shareholders, or serve primarily to satisfy listing requirements. Meeting frequency can likewise represent either active oversight or procedural compliance, particularly where regulation prescribes a minimum number of meetings and observed variation is limited.

Contemporary emerging-market evidence supports the importance of measuring governance as a multidimensional construct: Nguyen *et al.* (2024) report that a comprehensive governance index constrains both accrual-based and real earnings management in Vietnam, while Hong *et al.* (2023) show that the effectiveness of

governance varies with firms' external-financing incentives. Accordingly, the present study treats individual governance characteristics as potentially distinct monitoring channels rather than assuming that formal structure guarantees substantive oversight.

H4a–c: *Board independence, audit-committee independence, and audit-committee meeting frequency positively moderate the association between discretionary accruals and future cash flow.*

3. Research Design

3.1 Sample and Data

The initial population consists of all the firms listed in the PSX as at 31st Dec, 2023. Financial firms are excluded because their accrual processes, regulatory capital, and financial statement structures differ from those of industrial and service firms. A balanced-panel requirement is then applied: all variables must be available for every year from 2010 through 2023.

The main variable of the study is discretionary accrual, so the firms with missing data regarding the calculation of DA are eliminated. Subsequently, the final sample encompasses a total of 150 firms. The balanced design supports consistent intertemporal comparisons but tilts the sample toward larger, surviving, and more transparent firms.

Financial statement and governance data are drawn from annual reports, the State Bank of Pakistan's Balance Sheet Analysis, the KSE, and the Business Recorder. The use of annual reports is essential for board composition, audit-committee characteristics, and ownership holdings that are not consistently available in aggregate databases.

3.2 Variable Measurement

Future operating performance (FP) is future cash flow from operating activities scaled by beginning total assets. Current profitability (CP) is current-year cash flow scaled by total assets. Future cash flow is selected because it provides a cash-based outcome that is not mechanically affected by a new set of discretionary accruals in the same way as future earnings.

Total accruals are calculated using the cash-flow statement approach:

$$TA_{it} = NI_{it} - CFO_{it}$$

where NI is income before tax and CFO is cash flow from operations. Total accruals are decomposed into non-discretionary and discretionary components using the

Modified Jones Model (Dechow *et al.*, 1995). In scaled form, expected accruals are estimated as a function of the inverse of lagged total assets, the change in revenue net of the change in receivables, and gross property, plant, and equipment. The fitted component is non-discretionary accruals (NDA); the residual is discretionary accruals (DA). Thus:

$$DA_{it} = TA_{it} - NDA_{it}.$$

Institutional ownership (IO) is the proportion of outstanding shares held by insurance companies, investment companies, financial institutions, modarabas, mutual funds, and qualifying joint-stock companies other than associated companies.

Ownership concentration (OC) is the proportion held by the ten largest shareholders.

Board independence (BI) is the proportion of non-executive directors on the board.

Audit-committee independence (ACI) is the proportion of non-executive members on the audit committee, and audit meetings (AM) is the annual number of audit-committee meetings. Firm size (SZ) is the natural logarithm of year-end market capitalization, and growth (GR) is the annual percentage change in sales.

3.3 Empirical Models

The baseline period fixed-effects model estimates the incremental association between discretionary accruals and future cash flow:

$$FP_{1,t+1} = \beta_0 + \beta_1 CP_{it} + \beta_2 NDA_{it} + \beta_3 DA_{it} + \beta_4 ACI_{it} + \beta_5 AM_{it} + \beta_6 IO_{it} + \beta_7 OC_{it} + \beta_8 BI_{it} + \beta_9 GR_{it} + \beta_{10} SZ_{it} + \lambda_t + \varepsilon_{it}. \quad (1)$$

The conditional model adds interactions between DA and each governance characteristic:

$$FP_{1,t+1} = \text{Model (1)} + \gamma_1 (DA \times ACI)_{it} + \gamma_2 (DA \times AM)_{it} + \gamma_3 (DA \times IO)_{it} + \gamma_4 (DA \times OC)_{it} + \gamma_5 (DA \times BI)_{it} + \varepsilon_{it}. \quad (2)$$

Here λ_t denotes period effects. Redundant fixed-effects and Hausman tests select period fixed effects over pooled and random-effects alternatives. Heteroskedasticity-consistent standard errors are used after diagnostics identify non-constant variance.

Variance inflation factors below two indicate that multicollinearity is not a material concern, while the Durbin–Watson statistics are close to two.

These diagnostics support the reported specification, although the observational design cannot eliminate all endogeneity or measurement error.

4. Results

4.1 Descriptive Statistics and Correlations

Table 1 reports the distribution of the variables. Mean current and future operating profitability are both 0.10. Mean discretionary accruals are close to zero, as expected for a residual-based measure, but their range is substantial. Audit committees are predominantly non-executive (mean ACI = 0.94) and meet approximately four times per year.

These values suggest strong formal compliance but limited cross-sectional variation. Non-executive directors constitute 64% of boards on average. Ownership is highly concentrated: the ten largest shareholders hold an average of 77% of outstanding shares, compared with mean institutional ownership of 18%. This contrast reinforces the importance of testing ownership concentration separately from institutional monitoring.

Table 1. Descriptive statistics

Variable	Mean	Median	Maximum	Minimum	Std. dev.
FP	0.10	0.09	0.60	−0.44	0.13
CP	0.10	0.09	0.57	−0.44	0.13
NDA	0.02	0.03	0.11	−0.26	0.04
DA	0.001	−0.01	0.62	−1.02	0.14
ACI	0.94	1.00	1.00	0.33	0.13
AM	4.22	4.00	10.00	2.00	0.66
BI	0.64	0.70	1.00	0.10	0.22
IO	0.18	0.15	0.59	0.00	0.15
SZ	23.08	23.20	27.26	19.23	1.52
OC	0.77	0.80	0.99	0.31	0.16
GR	0.21	0.17	3.12	−1.46	0.38

Source: *Own study.*

The bivariate correlations provide preliminary but not causal evidence. Future profitability correlates positively with current profitability (0.483), discretionary accruals (0.177), board independence (0.217), size (0.252), and ownership concentration (0.211). The correlation between discretionary and non-discretionary accruals is effectively zero, as expected from the residual construction. Pairwise correlations among explanatory variables are modest, supporting their joint

inclusion. Because correlations do not control for current performance, common shocks, or other governance variables, inference rests on the multivariate models.

4.2 Baseline Fixed-Effects Estimates

Table 2 presents the baseline results. Current profitability is strongly associated with future profitability ($\beta = 0.432$, $p < 0.001$), confirming persistence in cash flow. More importantly, discretionary accruals have a positive coefficient of 0.137 ($p = 0.0009$). Holding current cash flow, normal accruals, governance characteristics, size, growth, and period effects constant, the discretionary component of current accruals predicts higher next-year cash flow. H1 is therefore supported.

The result is consistent with discretionary accruals containing information about subsequent operating outcomes. It aligns with studies that characterize some accounting discretion as informative or efficient (Subramanyam, 1996; Siregar and Utama, 2008; Jiraporn *et al.*, 2008).

Nevertheless, the coefficient should not be interpreted as direct evidence of managerial intent. Estimated discretionary accruals may contain measurement error, omitted operating information, or components that reflect business conditions imperfectly captured by the modified Jones model. The more defensible conclusion is that the estimated discretionary component is not merely transitory: it has incremental predictive content for future cash flow.

Among the governance variables, ownership concentration and board independence are positive and marginally significant ($p = 0.0829$ and $p = 0.0965$, respectively). Institutional ownership, audit-committee independence, and audit-meeting frequency are statistically insignificant. Sales growth is positive and significant, while size is positive but insignificant. The model explains 64.6% of the variation in future profitability (adjusted $R^2 = 60.5\%$), and the joint F-test is significant.

Table 2. *Period fixed-effects regression: future cash flow*

Variable	Coefficient	t-statistic	p-value
Intercept	-0.1538	-1.570	0.1173
Current profitability (CP)	0.4315	9.568	<0.001
Non-discretionary accruals (NDA)	-0.0114	-0.077	0.9389
Discretionary accruals (DA)	0.1373	3.341	0.0009
Audit-committee independence (ACI)	-0.0036	-0.084	0.9334
Audit meetings (AM)	0.0022	0.256	0.7981

Variable	Coefficient	t-statistic	p-value
Institutional ownership (IO)	0.0326	0.874	0.3825
Ownership concentration (OC)	0.0649	1.738	0.0829
Board independence (BI)	0.0440	1.666	0.0965
Sales growth (GR)	0.0006	2.279	0.0232
Firm size (SZ)	0.0052	1.306	0.1922
Period effects	Yes		
R ² / adjusted R ²	0.646 / 0.605		
F-statistic (p-value)	11.534 (<0.001)		
Durbin–Watson	2.354		

Source: Own study.

4.3 Governance Interactions

Table 3 reports the conditional model. The direct DA coefficient is positive but no longer statistically significant once the five interactions are entered jointly. This coefficient represents the effect of DA when all uncentred governance variables equal zero, a value outside the typical range for several characteristics; it is therefore not an economically meaningful average effect. Interpretation should focus on the interaction terms and the corresponding conditional marginal effects.

The DA × IO coefficient is positive (0.476, $p = 0.0497$), providing support for H2. The DA × OC coefficient is also positive (0.413, $p = 0.0440$), providing support for H3. These results suggest that the positive association between discretionary accruals and future cash flow becomes stronger when institutional investors hold more shares and when ownership is more concentrated. Both findings are consistent with an ownership-monitoring explanation.

The interactions of DA with board independence, audit-committee independence, and audit-meeting frequency are statistically insignificant; H4a–c are not supported. Formal governance structures therefore do not appear to condition the informativeness of discretionary accruals in this sample. One explanation is limited substantive independence: non-executive members may comply with formal definitions without possessing the information, incentives, or authority needed to challenge management.

Another is restricted variation, particularly in audit meetings, which cluster around the regulatory minimum. The data cannot distinguish these explanations, but the contrast with ownership variables is theoretically informative.

Table 3. *Governance interactions and future cash flow*

Variable	Coefficient	t-statistic	p-value
Current profitability (CP)	0.4417	9.588	<0.001
NDA	−0.0697	−0.462	0.6444
DA	0.7127	1.458	0.1455
ACI	0.0030	0.070	0.9442
AM	0.0010	0.110	0.9126
IO	0.0300	0.791	0.4291
OC	0.0556	1.449	0.1480
BI	0.0433	1.613	0.1075
Sales growth	0.0006	2.254	0.0247
Firm size	0.0044	1.095	0.2744
DA × ACI	−0.0401	−0.134	0.8938
DA × AM	0.0725	0.871	0.3843
DA × IO	0.4758	1.889	0.0497
DA × OC	0.4134	1.932	0.0440
DA × BI	0.2650	1.268	0.2055
Period effects	Yes		
R ² / adjusted R ²	0.4478 / 0.4105		
F-statistic (p-value)	9.331 (<0.001)		
Durbin–Watson	2.345		

Source: *Own study.*

5. Discussion

5.1 Informative Accruals in an Emerging Market

The central finding is that discretionary accruals predict next-year cash flow after current cash flow and normal accrual determinants are controlled. This result matters because earnings management is frequently treated as synonymous with fraud or value destruction. The evidence supports a more differentiated account in which managerial discretion may incorporate information about collections, operating cycles, provisions, and other determinants of future cash realization.

In a setting with relatively limited analyst coverage, managerial estimates may constitute an important channel through which private information enters reported performance. The interpretation is consistent with recent Pakistan evidence that distinguishes efficient from opportunistic earnings management (Shah *et al.*, 2024), but the present design adds a stricter temporal criterion by requiring the discretionary component to map into subsequent cash flow.

At the same time, the study does not claim that all earnings management is beneficial or that opportunistic reporting is absent in Pakistan. The modified Jones residual is a noisy proxy, and a positive average coefficient can coexist with opportunistic behaviour in particular firms or periods.

The finding instead rejects an equally strong blanket assumption—that the entire estimated discretionary component is cosmetic and reverses without relation to future operations. The distinction between “informative discretionary accruals” and “efficient earnings management” is important for credible interpretation and for dialogue with reviewers.

5.2 Ownership Monitoring versus Formal Compliance

The interaction results indicate that ownership structure is more consequential than formal board attributes. Institutional owners may contribute analytical capacity, reputational discipline, and direct access to management, while concentrated owners may have sufficient wealth at risk to scrutinize the quality of accounting estimates.

This interpretation accords with recent evidence that institutional ownership improves earnings quality in China (Ali *et al.*, 2024), although the institutional context and investor composition differ from Pakistan. In a market where ownership and control are frequently combined within families, concentrated holdings can mitigate the classic manager–shareholder agency problem even as they intensify a separate conflict between controlling and minority shareholders.

The positive concentration interaction should therefore not be read as an unconditional endorsement of concentrated control. It indicates only that the link between discretionary accruals and future cash flow is stronger at higher concentration within this sample. Concentration could still have adverse effects through related-party transactions, entrenchment, or unequal treatment of minority shareholders. Future work should jointly examine accrual informativeness and measures of private-benefit extraction before reaching a broader welfare conclusion.

The insignificant board and audit-committee interactions have practical implications. Governance reforms often emphasize observable structures because they are straightforward to mandate and disclose. Yet a numerical majority of non-executive directors may not ensure expertise, independence from controlling owners, access to information, or willingness to challenge management.

Likewise, a meeting count says little about agenda quality, attendance, preparation, or follow-up. The results favour a shift from formal composition toward the capability and behaviour of governance bodies.

5.3 Implications for Theory, Regulation, and Practice

For agency theory, the findings show that governance mechanisms should be modelled as institutionally contingent. The same ownership concentration that raises minority-shareholder concerns may also improve managerial monitoring. The net outcome depends on which agency conflict dominates and on the legal and market infrastructure surrounding the firm. Emerging-market research benefits from distinguishing these channels rather than importing governance predictions developed for dispersed-ownership systems.

For regulators, the evidence suggests that compliance with structural requirements is necessary but may be insufficient. Attention could be directed toward director selection, financial expertise, disclosure of affiliations, audit-committee work quality, and the enforcement of minority-shareholder protections. Better disclosure of institutional investor identity and related-party ties would also help separate genuinely independent monitoring from affiliated ownership.

For investors and auditors, discretionary accruals should be evaluated in relation to subsequent cash realization rather than treated as inherently suspect. Persistent divergence between accrual estimates and cash outcomes remains a warning signal, but accruals that map into future cash flow may reflect legitimate forward-looking information. Audit planning and investment analysis can therefore combine accrual magnitude with governance context and ex post realization tests.

6. Conclusion

This study investigates whether estimated discretionary accruals contain information about future operating performance and whether corporate governance conditions that relation in Pakistan's emerging capital market. For 150 non-financial PSX firms over 2010-2023, discretionary accruals are positively associated with future cash flow after controlling for current cash flow, normal accruals, governance characteristics, size, growth, and period effects. The result is consistent with accrual discretion conveying information about future cash-generating capacity.

Ownership structure appears more relevant than formal governance composition. Institutional ownership and ownership concentration positively condition the accrual-future-cash-flow association at marginal significance levels, while board independence and audit-committee characteristics do not. The pattern suggests that owners with expertise or substantial capital at risk may provide more effective oversight of accounting discretion than formal structures adopted primarily for compliance. The principal implication is one of nuance.

Discretionary accruals are neither inherently informative nor inherently opportunistic; their meaning depends on realization in future outcomes and on the governance environment in which estimates are produced.

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Data availability: *The study uses secondary data from corporate annual reports, the State Bank of Pakistan's Balance Sheet Analysis, PSX records, and the Business Recorder.*

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