

Earnings, Cash Flows, and Ex Post Intrinsic Value of Equity

K. R. Subramanyam; Mohan Venkatachalam

+ Author & Article Information

The Accounting Review (2007) 82 (2): 457-481.

<https://doi.org/10.2308/accr.2007.82.2.457>

Share ▾

Tools ▾

Cite ▾

We reexamine the relative importance of earnings and operating cash flows in equity valuation. In contrast to previous studies that use stock returns (Dechow 1994) or future operating cash flows (Barth et al. 2001), we use *ex post* intrinsic value of equity as the criterion for comparison. We determine *ex post* intrinsic value of equity by discounting future dividends over a three-year horizon and market price at the end of the horizon by industry cost of equity. The advantage of the *ex post* intrinsic value measure over stock returns is that it is not contaminated by the stock market's fixation on reported earnings (Sloan 1996). Also, unlike finite horizon future operating cash flows, *ex post* intrinsic values better reflect the magnitude, timing, and uncertainty of investors' future cash flows (SFAC No. 1, FASB 1978). Our results suggest that accrualbased earnings dominate operating cash flows as a summary indicator of *ex post* intrinsic value.

This content is only available via PDF. Note: Supplemental materials and Teaching Notes are not available for Early Access articles. Links within the PDF will be activated once the article has been compiled and published in an issue.

American Accounting Association

You do not currently have access to this content.

Sign in

Don't already have an account? [Register](#)

Member Login

Log in

[Skip to Main Content](#)

Pay-Per-View Access

\$25.00

AAA Members: Please log in for free access to content. Note, Teaching Notes are a full member benefit and are not available to student members.

 [Buy This Article](#)



[View Metrics](#)

Citing Articles Via

Web Of Science (56)

Google Scholar

CrossRef (79)

Email Alerts

Article Activity Alert

Publish Ahead of Print Alert

New Issue Alert



Print ISSN: 0001-4826 **Online ISSN:** 1558-7967

[Skip to Main Content](#)

Information for Authors

[Authorship Policy](#)

[Plagiarism Policy](#)

[Data Integrity Policy](#)

[Citing Corrected Articles Policy](#)

[Minimizing Overlapping Decision Rights Policy](#)

[Prior Publication Policy](#)



[Cookie Policy](#) [Accessibility](#) [Terms & Conditions](#) [Get Adobe Acrobat Reader](#)

© Copyright 1998 - 2025 American Accounting Association. All rights reserved.