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Journal of Business Finance & Accounting / Volume 9, Issue 3 / pp. 361-381

SOME FORMAL CONNECTIONS BETWEEN ECONOMIC VALUES AND YIELDS AND ACCOUNTING NUMBERS

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First published: September 1982

https://doi.org/10.1111/j.1468-5957.1982.tb01001.x

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Abstract

This paper reports a number of results concerning the relationship between accounting numbers and economic values and yields. Some of the results have appeared previously in the literature and some are new. They have been collected together in a common analytical framework in order to demonstrate their formal, mathematical character. It is shown that present value can be obtained by discounting almost any profit numbers; that accounting rates of return define a discount function directly analagous to the term structure and the internal rate of return; and that the internal rate of return can be expressed as a linear weighted sum of accounting rates of return.

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