Accounting and Business Research ›

Volume 30, 2000 - Issue 4

272 Views | 26 CrossRef citations to date | 0 Altmetric

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FRS3 earnings, Headline earnings, and accounting-based valuation models

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Pages 299-306 | Accepted 01 Feb 2000, Published online: 27 Feb 2012

Cite this article https://doi.org/10.1080/00014788.2000.9728947

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Abstract

This paper examines the joint and incremental explanatory value of book value per share and two measures of earnings per share (Headline and FRS3 EPS) for the cross-section of UK share prices. We find that Headline EPS explains a significant proportion of cross-sectional variation in share price. Book value per share contributes incremental explanatory value to the model, which is both statistically and economically significant. However, the incremental explanatory value contributed by FRS3 EPS is negligible. We conclude that FRS3 should be revised to encourage firms to report something like Headline EPS on a standardised basis in addition to FRS3 EPS.

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