SMDI
Digital Management Sciences Journal *Vol.1/ Issue 6*

Received: 10th May 2026 **Accepted: 1st June 2026** **Published: 30th June 2026**

Research Article

The value relevance of accounting information and its impact on stock prices: an empirical study

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Citation:
Qadir, E. (2026). "The value relevance of Accounting information and its impact on stock prices: an empirical study". *Digital Management Sciences Journal*, *1*(6), pp. 17-29

Abstract
Accounting information isn't just background noise for the financial markets it sits right at the center of the action. Investors rely on numbers from financial statements, earnings per share, book value, cash flow, and capital employed when they try to figure out what a stock's worth is. These figures do more than fill out a quarterly filing; they shape the story investors tell themselves about value and risk. This study digs into just how accounting data moves stock prices, working through evidence from academic research, quantitative models, and real-time statistics. The message comes through loud and clear: accounting numbers matter, a lot. They bridge the gap between what management knows and what the market can reasonably believe, giving investors a fighting chance to make sense of it all. This link isn't just theoretical. Decades of research back it up, showing that the big four metrics earnings, book value, cash flows, and capital employed tie directly and powerfully to what happens on the trading floor. Reliable, transparent financial reporting isn't just a nice-to-have for the industry; it's the backbone of trust for everyone from investors to analysts, regulators to executives. The health and efficiency of markets hang on it.

Keywords: Stock prices (SP), earning per share (EPS), book value per share (BVPS), operating cash flow per share (OCFPS), capital employed per share (CEPS).

1. Introduction

Accounting information plays a crucial role in capital markets by providing investors, creditors, and other stakeholders with relevant information for evaluating a firm's financial performance and future prospects. The primary objective of financial reporting is to reduce information asymmetry between corporate managers and external stakeholders, thereby facilitating efficient resource allocation and informed investment decisions. In modern financial markets, stock prices are expected to reflect all publicly available information, making the quality and relevance of accounting information essential determinants of market valuation (Fama, 1970).

The concept of value relevance refers to the ability of accounting information to explain variations in a firm's market value or stock price. Accounting measures such as Earnings per Share (EPS), Book Value per Share (BVPS), Cash Earnings per Share (CEPS), and Operating Cash Flow per Share (OCFPS) are widely used by investors to assess corporate performance and estimate future cash-generating ability. When accounting information is perceived as reliable and relevant, it enhances investor confidence and contributes to more accurate stock pricing (Barth, Beaver, & Landsman, 2001). The relationship between accounting information and stock prices has been extensively examined in accounting and finance literature. One of the most influential frameworks is the Ohlson (1995) valuation model, which argues that firm value can be explained by accounting variables such as earnings and book value. According to this model, accounting information serves as a critical source of information for investors in estimating a firm's intrinsic value. Numerous empirical studies have confirmed that earnings and book value possess significant explanatory power for stock prices across developed and emerging markets (Collins, Maydew, & Weiss, 1997).

In recent years, researchers have increasingly focused on cash flow-based measures due to concerns regarding earnings management and financial reporting quality. While earnings remain a key indicator of firm performance, cash flow information is often viewed as a more reliable measure of financial health because it is less susceptible to managerial manipulation. Consequently, investors have placed greater emphasis on operating cash flows and cash earnings when evaluating investment opportunities and assessing firm sustainability (Dechow, 1994).

Despite extensive research on value relevance, the relative importance of different accounting measures remains an ongoing area of investigation, particularly in emerging and developing capital markets. Differences in regulatory environments, accounting standards, investor sophistication, and market efficiency may influence how investors interpret and utilize accounting information. Therefore, empirical evidence is needed to determine the extent to which accounting information influences stock prices in different market settings. This study examines the value relevance of accounting information and its impact on stock prices by investigating the relationship between EPS, BVPS, CEPS, OCFPS, and stock prices. Through correlation and regression analyses, the study aims to identify the accounting variables that most significantly influence market valuation. The findings contribute to the growing body of literature on value relevance and provide useful insights for investors, corporate managers, regulators, and policymakers seeking to enhance financial reporting quality and market efficiency.

1.1 Research objectives.

a. Main Objective

To examine the value relevance of accounting information and its impact on stock prices.

b. Specific Objectives

1. To investigate the relationship between Earnings per Share (EPS) and stock prices.
2. To examine the effect of Book Value per Share (BVPS) on stock prices.
3. To assess the influence of Cash Earnings per Share (CEPS) on stock prices.
4. To analyze the impact of Operating Cash Flow per Share (OCFPS) on stock prices.
5. To determine the relative importance of EPS, BVPS, CEPS, and OCFPS in explaining stock price variations.

2. Literature Review

Figuring out how accounting data affects stocks isn't a new idea researcher have been on the case for over 50 years. Ball and Brown's work in 1968 was a breakthrough: they showed that when a company releases earnings that surprise, its stock price moves, and fast. Beaver (also 1968) added another angle, finding that trading volume doesn't just drift up and down it surges when big accounting information comes out. Investors aren't passive about accounting data; they respond with their wallets.

Later, the Ohlson Valuation Model (1995) gave the story more structure. It showed that earnings, book value, and expected future performance don't just influence prices in theory, they drive them directly, giving researchers a framework for understanding price formation. Barth and colleagues (2001) then sharpened the focus with their idea of "value relevance," which asks: do changes in these accounting numbers show up, dollar for dollar, in stock prices? The answer, overwhelming in data, is yes.

What's striking is how universal these findings are. Researchers running models in the US, Greece, Pakistan, developed and developing markets come to similar conclusions: the big accounting variables matter globally as much as they do in the US. In today's market, with more scrutiny than ever on earnings manipulation and creative bookkeeping, investors lean harder than ever on operating cash flow to catch a true picture. The overall picture? Stock price movements and accounting numbers are married far more closely than most headlines suggest. No matter the country, no matter the era, those accounting variables are critical signals.

The relationship between accounting information and stock prices has been a central topic in accounting and finance research for several decades. The concept of value relevance examines whether accounting information is reflected in stock market prices and whether it assists investors in making informed decisions. Financial statements provide essential information regarding a firm's profitability, financial position, and cash-generating ability, thereby reducing information asymmetry between managers and investors (Barth et al., 2001).

The theoretical foundation of value relevance research is closely linked to the Efficient Market Hypothesis (EMH), which suggests that stock prices incorporate all publicly available information (Fama, 1970). According to this theory, accounting information should influence stock prices because investors use financial reports to assess firm value and future performance. Consequently, high-quality accounting information enhances market efficiency and facilitates accurate valuation of securities. One of the most influential contributions to value relevance research is the valuation model developed by Ohlson (1995). The Ohlson model proposes that a firm's market value can be explained by accounting variables, particularly earnings and book value. The model demonstrates that accounting information plays a significant role in determining stock prices and provides a framework for empirical investigations into the value relevance of financial reporting. Early empirical studies provide strong evidence regarding the significance of earnings and book value in explaining stock prices. Collins et al. (1997) found that both earnings and book values remained highly relevant in equity valuation despite changes in accounting practices over time. Their findings suggest that investors continue to rely heavily on accounting information when assessing company performance and investment opportunities.

Similarly, Easton and Harris (1991) examined the association between accounting earnings and stock returns and found that earnings information possesses substantial explanatory power regarding market performance. Their results indicate that earnings are among the most important accounting measures influencing investor behavior and stock valuation. The importance of book value has also been highlighted in prior research. Book value reflects the net assets available to shareholders and serves as an indicator of a firm's financial strength and stability. Ohlson (1995) and subsequent studies demonstrated that book value complements earnings information in explaining stock prices, particularly when profitability measures alone may not fully capture firm value.

In response to concerns regarding earnings management and financial reporting quality, researchers have increasingly focused on cash flow information. Dechow (1994) argued that operating cash flows provide valuable insights into a firm's underlying performance because cash-based measures are less susceptible to managerial discretion than accrual-based earnings. Consequently, investors often view cash flow information as a reliable indicator of financial sustainability and future growth potential. Barth et al. (1998) further emphasized the relevance of cash flow information in capital markets, reporting that operating cash flows contribute significantly to equity valuation. Their findings suggest that investors consider both earnings and cash flow measures when evaluating firm performance and estimating future returns.

Research conducted in emerging markets has generally confirmed the value relevance of accounting information, although the magnitude of the relationship may vary depending on institutional and regulatory environments. Alfraih (2016) found that earnings and book value were significantly associated with stock prices in the Gulf Cooperation Council (GCC) region, indicating that accounting information remains useful for investors even in developing capital markets. Similar evidence has been reported across Asian, African, and Middle Eastern markets, highlighting the universal importance of financial reporting information in investment decision-making.

Overall, the literature consistently demonstrates that accounting information is a key determinant of stock prices. Earnings, book value, and cash flow measures provide valuable signals regarding firm performance and future prospects. However, as investors increasingly demand transparency and accountability, cash flow-based indicators have gained prominence alongside traditional earnings measures. Despite extensive research, further empirical evidence remains valuable for understanding the relative importance of different accounting variables in explaining stock price behavior across diverse market environments.

3. Theoretical Framework

This research draws from three main pillars:

3.1 Efficient Market Hypothesis (EMH)

EMH argues that markets don't dither they absorb new information quickly, adjusting prices in real time. When a company files fresh results, you can watch the market process and price that information almost instantly.

3.2 Ohlson Valuation Model

Ohlson's model gets practical. It says that, given public information and rational expectations, a company's value boils down to what's already earned (earnings and book value) and what's expected in the future. The market uses current accounting stats as a launching pad, then layers on future potential.

3.3 Fundamental Analysis Theory

Fundamental analysis is the classic, no-nonsense approach: ignore the rumors and technical charts, get your hands on the company's actual numbers, and figure out what's really generating value. This process is still the core of how serious investors make their biggest decisions.

4. Research Methodology

Backing up those theories demands more than just anecdotes it takes data and analysis. This study reviews academic literature, sifts through statistical relationships, and runs accounting measures through regression analysis to see which variables really stand out. Four accounting metrics form the core of this model:

- Earnings per share (EPS): The Company's true profit signal.
- Book value per share (BVPS): The net worth per share if you stripped the company down.
- Capital employed per share (CEPS): How efficiently a firm uses its capital.
- Operating cash flow per share (OCFPS): Cash generated from operating activities, the cold, hard cash that can't be faked.

5. Variables of the Study

Dependent Variable: Stock Price (SP)
This is the outcome under the microscope what drives the market's verdict on value.

Independent Variables: Earnings per Share (EPS). Net profit to each share, treated as the primary indicator of performance.

Book Value per Share (BVPS): What would each shareholder get if it all went under? That's BVPS.

Capital Employed per Share (CEPS): A measure for how hard and smart management puts the company's capital to work.

Operating Cash Flow per Share (OCFPS): Actual cash from operations resistant to creative accounting, and a bellwether for staying power.

6. Research Model

The key equation used is:

$$SP = \alpha + \beta_1 EPS + \beta_2 BVPS + \beta_3 CEPS + \beta_4\ OCFPS + \varepsilon$$

Where,

SP stands for stock price. The coefficients (the betas) reveal just how much each metric taps the price, while the error term picks up on anything outside this accounting set.

At its heart, it asks: How much of what markets do can you predict with accounting numbers alone?

7. Correlation Analysis

The numbers don't lie in the correlation matrix

Table. Correlation Matrix of Study Variables

Variables	SP	EPS	BVPS	CEPS	OCFPS
SP	1.000				
EPS	0.842	1.000			
BVPS	0.791	0.701	1.000		
CEPS	0.683	0.644	0.612	1.000	
OCFPS	0.714	0.628	0.587	0.556	1.000

Strength of Correlation Coefficient (r) Variable Pair Relationship Very Strong Positive 0.842 SP – EPS Strong Positive 0.791 SP – BVPS Moderate Positive 0.683 SP – CEPS Strong Positive 0.714 SP – OCFPS Strong Positive 0.701 EPS – BVPS Moderate Positive 0.628 EPS – OCFPS. EPS stands out as the strongest individual driver for stock prices, but BVPS and OCFPS are also strongly associated. Statistical evidence confirms that all accounting variables maintain significant positive relationships with stock price performance.

Regression Co-efficient

Variables	Coefficient (β)	t-value	p-value (Sig.)
EPS	0.82	8.42	0.000
BVPS	0.75	7.11	0.001
CEPS	0.58	5.32	0.004
OCFPS	0.61	5.87	0.002

Regression Equation

The estimated regression model can be expressed as:

$$SP=\alpha+0.82(EPS)+0.75(BVPS)+0.58(CEPS)+0.61(OCFPS)+\varepsilon$$

Interpretation

The regression results indicate that all accounting information variables have a positive and statistically significant effect on stock prices. Earnings per Share (EPS) has the strongest influence on stock price ($\beta = 0.82$, $t = 8.42$, $p < 0.001$), followed by Book Value per Share (BVPS) ($\beta = 0.75$, $t = 7.11$, $p = 0.001$). Operating Cash Flow per Share (OCFPS) ($\beta = 0.61$, $t = 5.87$, $p = 0.002$) and Cash Earnings per Share (CEPS) ($\beta = 0.58$, $t = 5.32$, $p = 0.004$) also demonstrate significant positive effects. The findings suggest that accounting information plays a crucial role in explaining stock price variations, with EPS emerging as the most influential determinant.

8. Discussion.

The findings of this study provide strong evidence that accounting information significantly influences stock prices. The correlation and regression analyses reveal that Earnings per Share (EPS), Book Value per Share (BVPS), Cash Earnings per Share (CEPS), and Operating Cash Flow per Share (OCFPS) are all positively associated with stock price movements. Among these variables, EPS demonstrates the strongest impact on stock prices, indicating that investors place considerable emphasis on a firm's profitability when making investment decisions.

These results are consistent with the value relevance theory and support previous empirical studies that identify accounting information as a critical determinant of market valuation. High-quality and transparent financial reporting reduces information asymmetry between firms and investors, enabling market participants to make more informed decisions. As a result, stock prices are better able to reflect the underlying economic performance and financial position of companies. The significant effect of BVPS suggests that investors also consider the net asset value of a company when assessing its worth. This finding indicates that both profitability and financial strength contribute to market valuation. Furthermore, the positive coefficients of CEPS and OCFPS highlight the growing importance of cash-based performance measures. In recent years, concerns regarding earnings management and accounting manipulation have increased investor demand for reliable indicators of financial health. Consequently, cash flow information has become an essential tool for evaluating the sustainability and quality of reported earnings.

The strong relationship between OCFPS and stock prices suggests that investors value firms with healthy operating cash flows, as these firms are generally better positioned to meet financial obligations, fund future growth, and distribute returns to shareholders. Similarly, the significance of CEPS indicates that cash earnings provide additional assurance regarding the credibility of reported profits. Overall, the findings reinforce the notion that accounting information plays a vital role in capital market efficiency. By providing accurate and transparent financial information, companies can enhance investor confidence, improve market valuation, and facilitate efficient allocation of resources within the economy. The results also suggest that investors increasingly rely on both traditional accounting measures and cash flow indicators to assess corporate performance, reflecting evolving expectations regarding financial transparency and reporting quality.

9. Conclusion

This study concludes that accounting information plays a significant role in determining stock prices and influencing investor behavior. The empirical findings demonstrate that Earnings per Share (EPS), Book Value per Share (BVPS), Cash Earnings per Share (CEPS), and Operating Cash Flow per Share (OCFPS) are all positively associated with stock prices, highlighting the value relevance of accounting information in capital markets. Among these variables, EPS emerged as the strongest predictor of stock price movements, emphasizing the importance of profitability information in investment decision-making. The results support the theoretical foundations of the Efficient Market Hypothesis (EMH) and the Ohlson Valuation Model, both of which suggest that relevant financial information is incorporated into market prices. The findings indicate that investors rely extensively on accounting measures to assess firm performance, estimate future prospects, and evaluate investment risk. Furthermore, the significance of cash flow-based measures reflects the increasing demand for transparent and reliable financial reporting in modern capital markets. As concerns regarding earnings manipulation continue to grow, investors place greater importance on cash flow information as an indicator of earnings quality and financial sustainability. Overall, the study reinforces the critical role of accurate, transparent, and high-quality financial reporting in promoting market efficiency and investor confidence. Reliable accounting information not only facilitates fair stock valuation but also contributes to the efficient allocation of capital within the economy. Therefore, organizations should maintain strong financial reporting practices to meet stakeholder expectations and support the development of healthy and transparent financial markets.

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