THE VALUE RELEVANCE OF ACCOUNTING INFORMATION: FOCUSING ON US AND CHINA

Gee-Jung Kwon, Hanbat National University

ABSTRACT

This study examines how accounting information such as book value of equity, accounting earnings, cash flow, operating income, and operating cash flow affect the corporate value of manufacturing companies listed on US and Chinese stock markets from 2008 to 2015.

The empirical analysis shows that, first, the book value of equity has the greatest effect on increases in firm value in all models; accounting earnings, operating income, and operating cash flow have a negative effect on corporate value, and cash flow has positive value relevance.

Second, comparing the results of regression analyses of US and Chinese manufacturing companies reveals that the book value of equity is the most valuable factor among US companies; cash flows and operating cash flows help increase firm value; and accounting earnings and operating income reduce firm value. For Chinese firms, accounting earnings show the highest value relevance, followed by operating income and net cash flows, while operating cash flow has a negative impact on corporate value growth. The book value of equity, the most value-relevant factor for US firms, helps reduce corporate value for Chinese companies.

This study provides information that investors seeking to invest in US and Chinese manufacturing companies can use to evaluate enterprise value. Capital market participants can also use this study's empirical findings to evaluate the value of enterprises when making investment decisions.

Keywords: Value Relevance, Accounting Information, Accounting Variable, US, China, Comparative Value Relevance, Manufacturing Companies.

INTRODUCTION

Many studies have been conducted on the degree to which the accounting information disclosed in financial statements reflects the real value of companies since Ball and Brown (1968) first described the relationship between accounting information and firm value (Berglof, 1990; Burgstahler & Dichev, 1997; Collins et al., 1997; Wysocki, 1997; Barth et al., 1998; Berlin & Loeys, 1998). Research after Ball and Brown (1968) went far beyond basic analyses and value measurements for determining the intrinsic value of firms based on accounting information but remained confined to the informational view of accounting. These studies have focused on how accounting information is reflected in the market or how the market responds to published accounting information under the Capital Asset Pricing Model (CAPM). The research has not attempted to examine the direct relationship between accounting information and corporate value.

Research on corporate value evaluation has tended to focus on the accounting information used to measure corporate value. The earliest work was that of Ohlson (1995) and Feltham and Ohlson (1995). Ohlson (1995) develops Edwards and Bell (1961) to present a model of firm valuation based on accounting information such as accounting earnings and book value of equity. The basic assumption of the Ohlson (1995) model is that the book value of

equity and accounting earning plays a major role in firm value determination. The Ohlson (1995) corporate valuation model offers a structure that provides direct evidence of the validity and usefulness of accounting information.

Many studies have been conducted using the Ohlson (1995) model. Of these, several have examined the value relevance of accounting information (Burgstahler & Dichev 1997; Collins et al., 1997; Barth et al., 1998; Francis & Schipper, 1999; Abarbanell & Lehavy, 2002; Bradshaw & Sloan, 2002; Brown & Shivakumar, 2003; Choi et al., 2006; Asthana & Chen, 2007). Most of these studies indicate that accounting information has a significant effect on firm value using various accounting variables.

Over the past 30 yrs, the Chinese economy has achieved very high economic growth through its national export-oriented policies. Chinese manufacturers have played a central role in China's export-led policy. According to the 2016 Global Manufacturing Competitiveness Index (GMCI), China is currently the number one player in international manufacturing competitiveness, but it expects the United States to top the list by 2020 and China to rank second. While competition between the US and China is fierce in the manufacturing sector, there have been few studies comparing the US manufacturers that have led the global economy with those of China, which has emerged as a new economic power. This study examines the key variables that affect firm value in US and Chinese manufacturers. In addition, this study compares and analyzes the similarities and differences between major US and Chinese firms. This study should provide information useful to investors who are considering investments in US or Chinese manufacturing companies.

The rest of this paper proceeds as follows. Chapter 2 reviews the literature. Chapter 3 presents the research hypotheses and research models. Chapter 4 outlines the results of the empirical analysis, and Chapter 5 summarizes the results and concludes the paper.

LITERATURE REVIEW

Since Ball and Brown (1968), much research has been conducted in the US on the relevance of accounting information to firm value. Penman (1991) reported that the magnitude of ROE provides information on the persistence coefficient of earnings, as it varies across cross-sectional areas and time-series. Ou and Penman (1993) find that information on financial statements other than ROE has no explanatory power for ROE. They also report that the explanatory power of stock price premiums is increased for financial statement items.

Dechow (1994) finds that corporate profits are more reflective of firm performance than are cash flows, due to accruals. His results are consistent with the traditional perception that accrual basis accounting is more reflective of corporate performance than is cash basis accounting. Hayn (1995) reported that positive earnings are more value relevant than are negative earnings and that book value does not differ significantly between the two groups. Burgstahler and Dichev (1997) report that the higher the ROE, the stronger the value relevance of accounting earnings. Collins et al. (1997) find that, contrary to the traditional view, the combined value relevance of accounting earnings and the book value of equity has not decreased over the past four decades but has increased. Francis and Schipper (1999) also show that the share price explanatory power of net assets has increased, while the explanatory power of net income has decreased.

Since the 1990s, many studies have examined the value relevance of accounting information for companies listed on the Chinese capital market. Haw et al. (1999) find a significant association between annual market-adjusted stock returns and earnings changes and

suggest that accounting earnings via companies' listed A-shares have significant value relevance. Lu (1999) showed that the value relevance of the P/B and P/E ratios increased between 1994 and 1998. Chen et al. (2002) documented that the book value of equity and retained earnings both have a significant influence on firm value. Liu (2004) also reports that cash flow, discretionary accruals, and nondiscretionary accruals also have significant effects on firm value.

Haw et al. (1999) and Zhao (2004) also report that accounting earnings are more value relevant than cash flow Wang et al. (2004) further fond that accounting earnings have a greater impact on firm value than economic value added (EVA). Liu and Liu (2007) find that accounting information has value relevance in all (i.e., A, B, and H) share markets. Lam et al. (2013) reported that the value relevance of book value increased significantly but also decreased according to the combined value relevance analysis model that considers both the book value of equity and accounting earnings. Finally, Qu and Zhang (2015) also reveal that the value relevance of accounting earnings decreased slightly, while the value relevance of net book value increased significantly.

HYPOTHESES AND EMPIRICAL MODEL

Since Ohlson (1995), many studies have reported that value relevance of accounting earnings is declining (Hayn 1994). This is because the accounting earning on the income statement, which is a traditional measure of performance, often fails to reflect enterprise value. For example, Abarbanell and Lehavy (2002) and Bradshaw and Sloan (2002) provide evidence that operating income is more relevant than accounting earning.

In many countries, cash flow, operating income, and operating cash flow are disclosed in the financial statements in addition to the accounting earning. This study begins with the question of whether only the accounting earnings and book value of equity, which are mainly used in the existing studies, have a major influence on the firm value.

Therefore, this study investigates the effect of accounting information on the corporate value and also compare and analyze the similarities and differences in the value relevance of accounting information in US and Chinese manufacturing companies.

This will allow us to identify which of the various accounting information reported in the financial statements of US and Chinese manufacturing companies will play the most important role in determining corporate value. For this, this study establishes the following hypothesis.

> *H1: The value relevance of accounting information is equal between the US and Chinese manufacturing companies.*

This study tests the research hypotheses using the Ohlson (1995) valuation model (Research Model 1), which is converted into several empirical equations (Research Models 2-4) by replacing accounting earnings with operating income, net cash flows, and net operating cash flows:

$$MV_{i,t}/S_{i,t} = \alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2\, NI_{i,t}/S_{i,t} \quad (1)$$

$$MV_{i,t}/S_{i,t} = \alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2 CASH_{i,t}/S_{i,t+}\varepsilon_{i,t} \quad (2)$$

$$MV_{i,t}/S_{i,t} = \alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2 OI_{i,t}/S_{i,t+}\varepsilon_{i,t} \quad (3)$$

$$MV_{i,t}/S_{i,t} = \alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2 OCF_{i,t}/S_{i,t+}\varepsilon_{i,t} \quad (4)$$

where, $MV_{i,t}$:Stock price at the end of fiscal year t (the event year), $BV_{i,t-1}$:Book value of equity at the end of year t-1, $NI_{i,t}$:Accounting earnings in period t, $CASH_{i,t}$:Net cash flows in period t,$OI_{i,t}$:Operating income in period t, $OCF_{i,t}$:Net operating cash flows in period t, $S_{i,t}$:Number of shares issued in period t, ε_{it}:Normally distributed error term.

Controlling for heteroscedasticity, all variables are divided by number of shares outstanding in period t, ($S_{i,t}$)This study carries out Chow's (1960) test to investigate whether the accounting variables of the two linear regressions on the separate data groups are statically equal.

EMPIRICAL ANALYSIS

Sample Selection

All financial data used in this study are collected from OSIRIS DB. The data period covers the eight years from 2008 to 2015. The sample firms are manufacturers listed on US and Chinese stock markets. Of the 35,710 observations collected initially, the following 23,445 samples are excluded from the empirical analysis:

1. Samples that do not annually settle their accounts in December.
2. Legal management companies.
3. Impaired capital companies.
4. Samples that lack financial data in the OSIRIS DB.

This study eliminates outliers by excluding sample data with absolute student residual values greater than 2 and a Cook's distance greater than 0.5. Table 1 shows the sample selection procedures used in this study.

Table 1
SELECTION OF SAMPLE FIRMS

Manufacturing firms extracted from OSIRIS DB at the end of 2008–2015 (firm-year)	35,710
Excluding (-): Samples that do not annually settle their accounts in December Legal management companies Impaired capital companies Samples lacking financial data in the OSIRIS DB	-23,445
Total data samples (firm-year)	12,265

EMPIRICAL RESULTS

Descriptive Statistics

Table 2 shows the descriptive statistics of the main variables used in this study. The US and China data compare as follows. First, the maximum, minimum, and average values of the stock price and the book value of equity are higher in the US than in China. The maximum US values of accounting earnings, cash flow, operating income, and operating cash flow are higher than China's, but the minimum and average values are higher in China.

Table 2
DESCRIPTIVE STATISTICS

Country	Number	Variable	Median	Standard Deviation	Minimum	Maximum
Total	12,265	$MV_{i,t}/S_{i,t}$	12.29509	119.44869	0.004	10834
		$BV_{i,t-1}/S_{i,t}$	4.42124	19.73264	0.0001587	1096
		$NI_{i,t}/S_{i,t}$	-0.84024	38.71481	-2731	94.086
		$CASH_{i,t}/S_{i,t}$	-0.38579	36.66255	-2631	97.459
		$OI_{i,t}/S_{i,t}$	-0.61028	39.21244	-2237	32.768
		$OCF_{i,t}/S_{i,t}$	57.25237	283.77025	-5210	10844
China	8,002	$MV_{i,t}/S_{i,t}$	1.5389242	1.5883475	0.0090317	33.7541329
		$BV_{i,t-1}/S_{i,t}$	0.8571527	1.175664	0.000158707	23.9258122
		$NI_{i,t}/S_{i,t}$	0.0653487	0.1906828	-2.445	5.8355544
		$CASH_{i,t}/S_{i,t}$	0.1213902	0.2381224	-2.376	5.8355544
		$OI_{i,t}/S_{i,t}$	0.0940794	0.2189942	-1.0521902	3.3709687
		$OCF_{i,t}/S_{i,t}$	85.889207	342.3216828	-5210.15	10844.16
US	4,263	$MV_{i,t}/S_{i,t}$	32.4559906	200.9026737	0.004	10833.51
		$BV_{i,t-1}/S_{i,t}$	11.1025536	32.3689221	0.001	1096.48
		$NI_{i,t}/S_{i,t}$	-2.5500503	65.5870518	-2731.04	94.086
		$CASH_{i,t}/S_{i,t}$	-1.3359729	62.1289086	-2631.21	97.459
		$OI_{i,t}/S_{i,t}$	-1.9426555	66.4447428	-2236.54	32.768
		$OCF_{i,t}/S_{i,t}$	3.2466345	83.2786818	-812.908278	3491.48

Note: $BV_{i,t-1}$=total book value of equity at the end of year *t*-1; $NI_{i,t}$=net income in period *t*; $OI_{i,t}$=operating income in period *t*; $CF_{i,t}$=total cash flows in period *t*; $OCF_{i,t}$=operating income in period *t*; and $S_{i,t}$=total sales in period *t*.

Correlation Analysis

Table 3 shows the results of a Pearson correlation analysis among the main variables used in this study. The dependent variable, stock price, shows a positive (+) relationship with book value at the 1% level of significance. However, stock prices show a negative (-) relationship with earnings, operating income, operating cash flow, and cash flow. As with stock price, book value of equity also shows a significantly negative correlation with accounting earnings, operating income, operating cash flow, and cash flow.

Table 3
PEARSON CORRELATION

Variable	$MV_{i,t}/S_{i,t}$	$BV_{i,t-1}/S_{i,t}$	$NI_{i,t}/S_{i,t}$	$CF_{i,t}/S_{i,t}$	$OI_{i,t}/S_{i,t}$	$OCF_{i,t}/S_{i,t}$
$MV_{i,t}/S_{i,t}$	1					
$BV_{i,t-1}/S_{i,t}$	0.4591	1				
	<.0001					
$NI_{i,t}/S_{i,t}$	-0.62892	-0.69458	1			
	<.0001	<.0001				
$CF_{i,t}/S_{i,t}$	-0.61769	-0.64957	0.98746	1		
	<.0001	<.0001	<.0001			
$OI_{i,t}/S_{i,t}$	-0.59042	-0.65745	0.97	0.94893	1	
	<.0001	<.0001	<.0001	<.0001		
$OCF_{i,t}/S_{i,t}$	-0.01403	-0.01539	0.00637	0.00548	0.00591	1
	0.1206	0.0886	0.4812	0.5444	0.513	

Variable Definitions:Table 2; Pearson's coefficient of correlation, two-sided test.

Comparative Value Relevance of Accounting Information:Total Sample

Table 4 shows the effects of book value, accounting earnings, operating income, cash flow, and operating cash flow on the firm value of manufacturing companies listed on US and Chinese stock markets for the 2008-2015 period. All four analytical models show a high explanatory power of 0.5 or more; model 1 has the highest (0.6505). Among the coefficients of the major independent variables that show a relationship with firm value, the coefficient of book value has a positive value at a 1% level in all models. Except cash flow, a negative (-) coefficient is shown at the 1% level of significance for accounting earnings, operating income, and operating cash flow.

This result is contrary to the findings in Abarbanell and Lehavy (2002) and Bradshaw and Sloan (2002) that accounting earnings are more value-related than operating income. However the result supports the empirical findings in Hyan (1995), Burghstahler and Dichev (1997), Collins et al. (1997), and Barth et al. (1998) that accounting earnings have a negative effect on firm value.

Table 4
REGRESSION RESULTS ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION: TOTAL SAMPLE

Variable		Total Sample (12,265 firm-year: 2008–2015)			
Variable	Expected Sign	Model 1	Model 2	Model 3	Model 4
Intercept	?	3.89762***	3.81405***	4.12382***	3.45061***
$BV_{i,t-1}/S_{i,t}$	+	1.85504***	1.83933***	1.83291***	2.18950***
$NI_{i,t}/S_{i,t}$	+	-0.13469***			
$CF_{i,t}/S_{i,t}$	+		0.21144***		
$OI_{i,t}/S_{i,t}$	+			-0.38813***	
$OCF_{i,t}/S_{i,t}$	+				-0.00288**
ΣYD		Included	Included	Included	Included
ΣIND		Included	Included	Included	Included
F Value		2531.12***	1526.00***	1510.27***	1773.66***
Adj R-Sq		0.6505	0.5286	0.526	0.566
Number of Samples After Deleting Outliers		12238	12240	12240	12232

Variable Definitions: Table 2, Models 1-4: pp. 4, *=p<0.1; **=p< 0.05; ***=p<0.01.

Comparative Value Relevance of Accounting Information between US and China: Model 1

Table 5 shows the results of a regression analysis of the value relevance of book value and accounting earnings of US and Chinese companies using Model 1. The coefficient of book value shows a significantly negative value (-0.03342) at the 1% level of significance for the Chinese enterprise group, while the coefficient for the main independent variable shows a significantly positive estimate (1.81267) at the 1% level of significance. By contrast, the coefficient of accounting earnings shows a significantly negative estimate (-0.18523) in the US corporate group but a significantly positive estimate (2.33509) in the Chinese enterprise group.

The results of the value relevance analysis on the Chinese enterprise group using Model 1 are similar to those of previous studies, such as Dechow (1994), Abarbanell and Lehavy (2002), Bradshaw and Sloan (2002), and Liu (2004), all of whom report that accounting earnings reflect enterprise value better than do the other performance variables. On the other hand, the results for

the US corporate group similar to those in Hyan (1995), Burghstahler and Dichev (1997), Collins et al. (1997), and Barth et al. (1998), who report that accounting earnings are negatively associated with firm value. This indicates that the value relevance variables differ between the US and Chinese business groups.

Table 5
REGRESSION RESULTS ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION BETWEEN US AND CHINA: MODEL 1

Model 1: $MV_{i,t}/S_{i,t}=\alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2\ NI_{i,t}/S_{i,t}+\varepsilon_{i,t}$

Variable	Expected Sign	China	US
Intercept	?	2.30821***	13.12125***
$BV_{i,t-1}/S_{i,t}$	+	-0.03342***	1.81267***
$NI_{i,t}/S_{i,t}$	+	2.33509***	-0.18523***
ΣYD		Included	Included
ΣIND		Included	Included
F value		397.88***	610.49***
Adj R-Sq		0.3118	0.5636
Number of Samples Before Deleting Outliers		8002	4263
Number of Samples After Deleting Outliers		7885	4249
Chow Test	Break Point	8002	
	F-value	22.37***	

Variable Definitions:Table 2; *=p<0.1; **=p<0.05; ***=p<0.01.

Comparative Value Relevance of Accounting Information between US and China:Model 2

Table 6 shows the results of the regression analysis on the relationship between cash flow and the book value of US and Chinese firms. The coefficients of the major independent variables indicating the relationship with firm value show the following. Concerning book value, the Chinese enterprise group shows a significantly negative value (-0.04071) at the 1% level of significance, while the US enterprise group has a positive value (1.78200). By contrast, cash flow shows a significantly positive coefficient at the 1% level of significance in both US and China. The cash flow coefficient is greater in China than in the US (1.49625>0.07062).

This result indicates that cash flow is more value relevant in Chinese firms than is the book value of equity, although the latter has more value relevance than cash flow in US firms. These results show that the book value of equity, substituting for liquidation value, is a more value-relevant variable than is cash flow, representing net cash holdings. The results also show that, contrary to the results of the US corporate group analysis, cash flows are more value relevant in Chinese firms than is the book value of equity.

Table 6
REGRESSION RESULTS ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION BETWEEN US AND CHINA:MODEL 2

Model 2: $MV_{i,t}/S_{i,t}=\alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2 CF_{i,t}/S_{i,t+}\varepsilon_{i,t}$

Variable	Expected Sign	China	US
Intercept	?	2.229097**	13.21967***
$BV_{i,t-1}/S_{i,t}$	+	-0.04071***	1.78200***
$CF_{i,t}/S_{i,t}$	+	1.49625***	0.07026
ΣYD		Included	Included
ΣIND		Included	Included

Table 6 REGRESSION RESULTS ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION BETWEEN US AND CHINA:MODEL 2			
F Value		334.09***	358.01***
Adj. R-Sq.		0.2754	0.4306
Number of Samples Before Deleting Outliers		8002	4263
Number of Samples After Deleting Outliers		7888	4249
Chow Test	Break Point	8002	
	F-value	19.78***	

Comparative Value Relevance of Accounting Information between US and China:Model 3

Table 7 shows the results of a regression analysis of the value relevance of operating profit and book value among US and Chinese companies using Research Model 3. The coefficients of the major independent variables indicating the relationship with firm value show the following. First, for book value of equity, the Chinese enterprise group shows a significant negative estimate (-0.04967) at 1% level, while the US enterprise group has a positive value (1.83635). Contrariwise, the coefficient of the per-share operating income shows a negative estimate (-0.43421) in the US corporate group but a significantly positive estimate (2.09798) in the Chinese enterprise group. These results show that the book value of equity, substituting for liquidation value, is a more value-relevant variable than is that of operating income.

The results also show that, in contrast to the results for the US corporate group, more value relevance is found for operating income—which replaces the book value of equity, representing liquidation value—among Chinese firms.

Table 7 REGRESSION RESULTS ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION BETWEEN US AND CHINA: Model 3			
Model 3: $MV_{i,t}/S_{i,t}=\alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2\ OI_{i,t}/S_{i,t}+\varepsilon_{i,t}$			
Variable	Expected Sign	China	US
Intercept	?	2.31616***	13.34850***
$BV_{i,t-1}/S_{i,t}$	+	-0.04967***	1.83635***
$OI_{i,t}/S_{i,t}$	+	2.09798***	-0.43421***
ΣYD		Included	Included
ΣIND		Included	Included
F Value		401.50***	368.89***
Adj. R-Sq.		0.3142	0.4378
Number of Samples Before Deleting Outliers		8002	4263
Number of Samples After Deleting Outliers		7870	4252
Chow Test	Break Point	8002	
	F-value	15.63***	

Variable Definitions:Table 2, *=p<0.1, **=p<0.05, ***=p<0.01.

Comparative Value Relevance of Accounting Information between US and China: Model 4

Table 8 shows the results of a regression analysis on the firm value relevance of operating profit and book value for US and Chinese companies using Research Model 4. The

coefficients of the major independent variables indicating the relationship with firm value show the following. First, the estimate of book value shows a positive value at the 1% level in both the US and China, but the coefficient is larger in the US than in China (1.95268>0.16369). The coefficient of the per-share operating income shows a positive estimate at the 1% level of significance in both the US and China, but the coefficient of the American business group is slightly larger than that of the Chinese enterprise group (0.02018>0.00023777).

Comparing the book value of equity with the magnitude of the operating income coefficient, the estimate of the book value for both the US and China shows a larger value than does that of operating income.

Table 8
REGRESSION RESULTS ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION BETWEEN U.S AND CHINA: MODEL 4

Model 4: $MV_{i,t}/S_{i,t}=\alpha_0+\alpha_1 BV_{i,t-1}/S_{i,t}+\alpha_2\ OCF_{i,t}/S_{i,t}+\varepsilon_{i,t}$

Variables	Expected Sign	China	US
Intercept	?	2.24604***	12.20530***
$BV_{i,t-1}/S_{i,t}$	+	0.16369***	1.95268***
$OCF_{i,t}/S_{i,t}$	+	0.00023777***	0.02018***
ΣYD		Included	Included
ΣIND		Included	Included
F Value		299.89***	612.83***
Adj R-Sq		0.2543	0.5653
Number of Samples Before Deleting Outlier		8002	4263
Number of Samples After Deleting Outlier		7891	4236
Chow Test	Break Point	8002	
	F-Value	2.03**	

Variable Definitions:Table 2; *=p<0.1, **=p<0.05, ***=p<0.01.

CONCLUSIONS

This study analyzes how accounting information such as book value of equity, accounting earnings, cash flow, operating income, and operating cash flow affect firm value for manufacturing companies listed on US and Chinese stock markets.

First, this study analyzes the full sample of US and Chinese manufacturing companies. Evaluating how accounting information affects corporate value reveals that the book value of equity has the greatest effect on firm value in all models; moreover, accounting earnings, operating income, and operating cash flow decrease firm value, while cash flow increases it.

The results of the comparative analysis between US and Chinese companies are as follows. First, the book value of equity, substituting for liquidation value, is the most value-relevant variable for US companies. On the other hand, accounting earnings, a traditional corporate performance variable, and operating income, representing business performance, helps reduce enterprise value.

In contrast to the US sample, the highest value relevance is held by accounting profit among Chinese firms, representing operating income and net cash holdings, followed by cash flow. However, operating cash flow has little impact on corporate value growth. On the other hand, the book value of equity, which has the highest value relevance for US firms, helps reduce corporate value in the Chinese enterprise group. Overall, this study's empirical evidence supports

all of the hypotheses (i.e., that the value relevance of accounting information is not equal between the US and China)

This study does not control for the inherent characteristics of each company, limiting its applicability to companies generally. However this study's results should help investors identify what valuation factors should be considered in determining the acquisition price for counterparties in mergers and acquisitions involving US and Chinese manufacturing firms. Capital market participants can also use this study to evaluate and predict corporate value when making investment decisions.

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