

## **The Effect of Real Earnings Management on the Value-Relevance of Cash Flows from Operations**

This study investigates whether the use of real earnings management (REM) affects the value-relevance of cash flows from operations (CFO). Prior literature provides evidence that accrual-based earnings management leads to lower quality earnings and that the value relevance of CFO increases as earnings quality decreases. Unlike accruals-based earnings management, however, REM has actual cash effects. So while accruals-based earnings management affects the quality of earnings, REM should also affect the quality of CFO. Results indicate that both accruals-based earnings management and REM decrease the value-relevance of earnings and that REM additionally decreases the value-relevance of CFO. This study helps to extend the understanding of incremental valuation effects of CFO beyond those of earnings and challenges the notion that “cash is king” by documenting circumstances under which the information quality of CFO is eroded.