# USEFULNESS OF ACCOUNTING INFORMATION IN FIRM VALUATION[1]

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**ABSTRACT**:

The discounted cash flow method of firm valuation accounts for risk through the discount rate or in expected cash flows. A problem arises, however, when the company has no quotes or the market is illiquid. The accounting literature has tried to estimate this rate or cost of capital from accounting information, using the accounting beta to capture company risk, but the results have been inconclusive. Empirical studies have also analyzed expected cash flows from stochastic discount factors but, given the technical difficulty involved, they are scant. This empirical study uses the stochastic discount factor approach to test the usefulness of accounting information as a predictor of expected and neutral risk cash flows. Using a sample of companies from the Standard and Poor's 500 index from 1996 to 2016, we verify that, with a confidence level of 85%, the best explanatory accounting items are capital expenditures, operating earnings per share, and interest. In addition, for companies without optimal statistical adjustment, we reject the clean surplus relation and confirm the presence of accounting conservatism

**KEYWORDS**: accounting cash-flows; valuation firms; stochastic discount factor; clean surplus; accounting conservatism.

**JEL**: C23; G12; G32; M41.

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