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CONSIDERATIONS ON THE DISCOUNTED CASH FLOW METHOD IN THE DETERMINATION OF ASSETS: A THEORETICAL ESSAY

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ABSTRACT

The aim of this theoretical essay is to discuss, in the light of accounting and finance theory, the Judgment - REsp 1.877.331 of the 3rd Panel of the Superior Court of Justice (STJ), which decided that to determine the assets of a retiring partner, unless determined in the Articles of Association, the Discounted Cash Flow (DCF) method is not pertinent. As a basis for the argumentation of this essay, the concepts of assets and their characteristic of generating future economic benefits were incorporated. For the essayist, this characteristic is a beacon for measuring assets and the value of a company, which is made up of a set of tangible and intangible assets. The Discounted Cash Flow is considered one of the main methods for valuing companies. It is essentially financial, derived from the capacity to generate future projected benefits, discounted to present value, adding the value of perpetuity. This method can measure the company in its current situation without the need for growth projections or future macroeconomic factors since case law considers that the future does not belong to the retiring partner. However, the ability to generate these economic benefits cannot be disregarded, which could lead to a valuation that is not fair value, thus harming one of the parties in the dispute. Based on these aspects discussed in the essay, using Discounted Cash Flows in Asset Determination processes is considered pertinent.

Keywords: *Discounted Cash Flow. Determination of Assets. Goodwill. Forensic Accounting.*

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1 INTRODUCTION

In Judgment - REsp 1.877.331 - issued by the 3rd Panel of the Superior Court of Justice (STJ) in April 2021, it was decided that for calculating the assets of a retiring partner, unless determined in the Articles of Association, the Discounted Cash Flow (DCF) method is not relevant. In short, among the justifications of the ministers who voted in favor of this understanding, the calculation by the DCF method involves future and uncertain earnings, in addition to implicitly having a bet on how the company will behave in the future, with stable or frequent profitability, not supporting, the retiring partner, the risks of the business. Thus, for the judges, the equity criterion evidenced in the Balance of Determination must prevail (Consultor Jurídico, 2022).

This judicial decision caused discussions in the Brazilian accounting expert environment, with the judgment above mentioning that "the legislator, when electing the Balance of Determination as an appropriate form for determining assets, excluded the possibility of jointly applying the discounted cash flow methodology" (STJ, 2021 p. 1). It should be noted that the Balance of Determination is not a company valuation method. However, it aims to highlight the market or economic value of the company's shareholders' equity. In Article 606 of the Code of Civil Procedure, it is established that if there is an omission in the articles of association on the form of valuation of the company, "the judge will define, as a criterion for determining assets, the equity value determined in the balance of determination [...] valuing assets and rights of the asset, tangible and intangible, at the exit price, in addition to the liability also to be determined in the same way" (Law No. 13.105, 2015). It is noteworthy that even the legislation mentioned above when mentioning exit values, such indication does not restrict, in the Balance of Determination, the disclosure of assets at fair value, liabilities at present value, and intangibles of the company that Goodwill can represent if the company presents the attributes to constitute it (Caríssimo, 2014).

Although this judgment is constituted with the necessary legal formalities, in addition to having been issued by the competent authorities, in theoretical terms, it is subject to further analysis or even some contestation. Accounting cannot be treated without other sciences or economic and social phenomena. Not deserving of spite, Accounting, as a social science, derives from the actions of life in society and its complexities. Bringing historical inferences, Herrmann Jr. (1951) already presented that Accounting deals with appropriate wealth as an economic-administrative matter, resulting from relations between individuals who form a society, collective wealth and human society, and wealth appropriated by companies. Thus, the behavior of this wealth is integrated into the equity object of accounting study. Going further, Herrmann Jr. (1951) mentions the economic potential arising from business activities the company conducts in motion.

This author's considerations, in the middle of the last century, already bring the issue of wealth (value generation) and movement, that is, continuity as a postulate since the entities object of the registration and accounting information must have as a parameter for the recognition and valuation of certain accounts, the condition of being in progress or not. A company in progress, that is, in the continuity of its business and having the ability to generate wealth and add value to its partners/shareholders, presents greater value than a company without prospects of horizon, in settlement, or even a newly constituted company that does not yet show whether it will be able to add value to owners/investors (Campos, 2011; Iudícibus, 2021).

The valuation of companies in lawsuits is the subject of academic research. There is literature and empirical evidence of forensic accountants' use of the DCF when acting as appraisers in the Determination of Assessment cases. Some studies have found the mention of the DCF method in the jurisprudence of courts of auditors, preference for expert accountants for the DCF, as well as the justification for using the DCF due to the income-generating capacity of the company (Caríssimo *et al*., 2016; Strassburg & Moreno, 2020; Mazzei & Gonçalves, 2020; Garcia, 2022).

As a result of the evidence of these studies applied to the Determination of Assets, added to the accounting and finance literature and, on the other hand, the judgment above that determines

as impertinent the use of this method for the valuation of companies when there are retiring partners due to death or dissidence, the motivating question of this theoretical essay arises. Under the accounting and finance theory framework, this essay intends to raise the following question: does the DCF rely on future and uncertain earnings, ignoring the risks of the business to the retiring partner and transferring it to the partners who remain in the business?

This discussion has both theoretical and practical implications. As a theorist, it is an opportunity for those who know to distort presuppositions in the literature, bringing an interpretation from the legal to the accounting and finance environments, enriching the debate, and glimpsing a different point of view. In the practical part, it seeks to analyze, based on the theoretical framework, any limitation of this method of valuation of companies in the Brazilian legal context or even to present arguments that support its use or even reflections on assumptions inherent to the methods for the valuation of companies that add to the measurement of intangible attributes of the business. It should also be noted that this essay is not intended to answer or face said judgment but rather to bring to the discussion the author's point of view on the arguments that supported the decision of the said court under the framework of accounting and finance theory.

2 THE ASSET AND ITS MEASUREMENT

In Brazil, especially from the XXI century, a change in the accounting paradigm regarding standardization represented mainly in accounting literature began. There was an expansion of studies related to accounting, having as evidence of this new paradigm the expansion of master's and doctoral courses in the accounting area, concomitant with the adequacy of international accounting standards. The consequence of these phenomena is the considerable growth of publications and studies in the academic accounting environment and an approximation of Brazilian regulatory bodies with academia and international bodies such as the *International Accounting Standards Board* (IASB) and the *International Financial Reporting Standards* (IFRS).

From this change, the conceptualization of assets is one of the numerous transformations. If before the asset was conceptualized as a set of assets, rights, and availabilities, it came to be understood as "a present economic resource controlled by the entity as a result of past events" (CPC 00 R2, 2019, p. 19). Said pronouncement expands the concept of economic resource by describing that it refers to rights that can produce economic benefits. These economic benefits refer to inflows of revenue, cash, or earnings, now and in the future. Not in the past.

When the concept of assets related to the ability to generate benefits and control is expanded, a more conservative view denoted by ownership and possession is abandoned, moving to a more comprehensive view that brings the figure of control and the ability to generate future economic benefits (Flores et al., 2018; Iudícibus, 2021). However, the relationship between assets and the generation of economic benefits is not recent. For example, for Sprouse & Moonitz (1962, p. 20), "assets represent expected future economic benefits, rights to which have been acquired by the enterprise as a result of some current or past transaction."

It should be noted that the ability to generate economic benefits is intrinsically related to the asset, not only in the theoretical framework but also in the accounting regulations. In other words, an asset produces benefits both in the current and future periods. Due to this capacity, there are different bases for measuring assets, which may be inflow or outflow values. At inflow values, assets are measured at historical cost, corrected historical cost, current cost, fair value, and net realizable value. At outflow values, the measurement can be the current cash equivalents, settlement values, and discounted cash flow values (Flores et al., 2018). Each of these forms of measurement results from certain conditions, characteristics, and standards for the assets. Nevertheless, the discussion will focus on discounted cash flow values for this study.

This economic approach to defining and measuring assets is not restricted to accounting aspects. Before that, it is driven by concepts of economics. In its economic approach, the

interpretation and formulation of accounting concepts are based on economic assumptions, both at the macroeconomic and microeconomic levels. For example, Hendriksen & Van Breda (2012) point out that a policy of dividend payments in periods of recession can assist in efforts to recover economic activity and encourage investment. On the other hand, the payment policy may tend to decrease to contain periods of inflation. One can see that such considerations bring aspects of Keynesian countercyclical policies in their wake. Minsky (2013), author of a post-Keynesian current, corroborates the concept of assets when linking them to the ability of economic agents to generate resources through their business activities, which can be affected in periods of crisis, even causing the loss of value of these assets.

It should be noted that this loss of value of assets, as explained by Minsky (2013) and Friedman (1972), who relied on another current of economic thought, presents converging points with regard to the relationship between demand, asset value, interest rate, and, inserted in this, return and risk appetite.

Considering these economic assumptions, in addition to accounting concepts and their foundations, we found the relationship between assets and the ability to generate economic benefits. This is a basic condition to be considered an asset and a driver for the understanding that if a particular asset, or even a company, has the generation of future economic benefits as its attribute, its measurement may be due to these attributions.

2.1 Assets and fair value

This brief review of the concept of assets is essential to begin the discussion of the use of DCF, as both are intrinsically linked to the issue of generating future economic benefits. Also, they influence and are influenced by the understanding that accounting is a system for recording and measuring the facts that occurred in the entities subject to bookkeeping and, consequently, the presentation of the financial statements.

It should be noted that for a long time, especially since the 1930s, accountants, professional associations, and academia have made efforts to define assets and measure them, which, depending on the characteristics of this resource, can be of different forms. In the 1960s, Ijiri and Jaedicke (1966) discussed the possibility of measuring assets using three distinct criteria: historical cost, historical cost adjusted for changes in price level, and market value. Over time, these options have expanded and become more evident, better understood, and verified the needs of this variety. Hendriksen and Van Breda (2012) presented an evolution and better explanation of these possibilities by bringing to theoretical discussion the bases for measurement, but separated between inflow and outflow values: measurement based on past events, represented by historical cost and past selling prices; at current values, represented by replacement costs and current selling price; at future values, which results from measurements supported by expected costs and expected realizable values (Martins et al.,2001; Hendriksen & Van Breda, 2012; Flores et al., 2018).

Due to the objectives of this essay, measurement based on the expected realizable value deserves greater attention and explanations (Hendriksen & Van Breda, 2012). This form of measurement is justified as a result of presenting a fair value for certain types of assets, such as individual ventures, or even for the valuation of a company as a whole. According to the authors, the expected realizable value relates to discounted values of cash flows or capacity to generate future services. In contrast, the net value will be the current exit price minus the costs for its sale.

The issue of the concept and determination of the value of assets was developed due to the standardization of measurement and disclosure of accounting information formed over the years. This evolution was due to the needs of the market and institutions/companies. The formation of the *Accounting Principles Board* (APB) and, later, the *Financial Accounting Standards Board* (FASB) resulted from the need to regulate accounting practices, as well as standardize and even reduce random procedures of accountants in the early twentieth century (Emerson et al., 2010; Flores et al., 2018).

Returning to the issue of fair value and its conceptual evolution for forming its concept, studies such as Philips (1963) *apud* Emerson, Karim, and Rutledge (2010) addressed new perspectives on valuing and measuring assets. This was in the mid-twentieth century, among which earnings and cash flow were used as forms for its measurement. It is worth noting that, in this period, the *American Accounting Association* (AAA) formed a study committee with the task of developing a basic theoretical framework for accounting, resulting in the formation of the *Statement of Basic Accounting Theory* (ASOBAT) (Emerson et al., 2010).

Currently, with the IFRS standardization process, the concept of fair value according to the Brazilian Accounting Pronouncements Committee - CPC 46 (Fair Value Measurement), which corroborates IFRS 13, is defined as "the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an unforced transaction between market participants on the measurement date." In measuring fair value, the pronouncement establishes that characteristics and conditions of the asset must be considered and that in the measurement of non-financial assets, their fair value arises from the ability to generate economic benefits.

Another point worth mentioning is the condition of the asset. This condition may be due to the asset being new, semi-new, or in a more deteriorated state, or even, and this applies to the discussion of this essay, the condition of the asset, or set of assets, at the time of the event and their ability to generate benefits. In this case, the set of assets will be a cash-generating unit, and the measurement form may be based on three hierarchical levels, as pointed out in CPC 46.

These three hierarchical levels are: I) the active market that represents the prices quoted in identical asset markets; II) observable information of the assets or even similar prices and markets; and III) unobservable data which are relevant to measuring the asset but are not available. The fair value measurement used to calculate the present value of expected cash flows, that is, based on future values, is an example of the information at level 3. A measurement at level 3, although based on unobservable data, uses observed data of the company or the asset resulting from its financial statements or controls, modeling them through assumptions that will complement the development of these data (CPC 46, 2012).

As introduced at the beginning of this topic, the concept of asset brings the ability to generate economic benefit in the future period, not in the past. However, time series, sequences of the determinant variables for measuring the asset, can be used for its valuation. This attribution of value will result from the measurement criteria, which will depend on the characteristics and condition of the asset so that its fair value can be determined. In the case of Determination of Assets, fair value is a key point since the expert accountant appraiser must seek to present a value that is neither lower nor higher than a safety level. Because the value below the fair value is determined, it benefits the partner who continues in the business to the detriment of the retiring/deceased. On the other hand, if a value higher than the fair value is determined, it benefits the retiring/deceased partner to the detriment of what remains in the business. This second situation is the one that the STJ justifies understanding as impertinent the DCF for measuring a company in legal proceedings. However, the assumptions of this company valuation method, its connection with the concept of asset, and its attribute of generating future economic benefits will be analyzed later.

3 CASH FLOW AND DISCOUNTED CASH FLOW

In specific terms, cash flow represents the actual cash inflows and outflows in corporations. On the other hand, this term directs to an accounting statement and a pricing method for assets and even a company. Although the term is cash flow, concerning the valuation of assets and companies, it stems from an approach related to income. That is, the valuation of the asset or company is based on the income or economic benefit flows that the asset can realize (Martins et al., 2001; Hitchner, 2017; Palepu & Healy, 2018).

In the valuation of a company, whether for an acquisition process or even in the Determination of Assets, the measurement of assets is an important aspect; if not, what will determine whether the entity subject to the valuation will present a receivable value if the assets are higher than the liabilities (Ornelas, 2003; Caríssimo et al., 2016). From this process, the assets can be measured on different bases, and the measurement based on discounted cash flow values is one of them; as the name expresses, it is a form of measurement capable of supporting the conditions to offer a fair value calculated based on the expected cash flows (Martins et al., 2001; Caríssimo et al., 2016; Hitchner, 2017).

The DCF method is considered one of the main methods of valuation of companies, being essentially financial, based on income. This method represents the measurement of a company or even an asset or set of them, based on the economic benefits projected in the future, discounted to present value, and adding the value of perpetuity or residual value. In this method, assets that can generate cash have higher values (Martins et al., 2001; Damodaran, 2007; Martelanc et al., 2010; Hitchner, 2017).

Although the method is called Discounted Cash Flow, it is related to earnings since it does not include accruals. In other words, provisions and the recognition of amortizations and depreciations make adjustments to investments and divestments and incorporate cash outflows from future years not discounted in the current year, but recognized in these provisions. At this point, Martins (1999) emphasizes this approach related to earnings by considering that “the traditional and intuitive concept of earnings is linked, ultimately, to the financial flow.” This statement is also based on the basis for determining cash flows for calculating the value of companies is made by the Income Statement for the Year, that is, by the Earnings Statement, through the necessary adjustments required in the literature on the subject.

In CPC 46 (2012), which deals with determining fair value and establishes three levels of information, when dealing with level 3, observable company data is used, complemented by assumptions that will assist in the model chosen for the asset pricing or even company. Thus, the forecast of the company’s cash flows, or accounting earnings is used to measure fair value. Furthermore, other assumptions are added, such as the discount rate that incorporates both business and systematic risk, projection period, perpetuity, or residual value, among other points.

In literature focused on the role of the financial expert in litigation, and the activities of the accounting experts are adapted to these actions, the valuation of a company due to the retirement or even death of a partner is pointed out as one of the various topics that demand this type of action. For valuations, experts can rely on three main approaches: the income approach, the market approach, and the asset-based (or cost-based) approach. The income approach is based on the finance theory and is premised on the assumption that the value of an asset is equal to the present value of its expected future returns. The market approach is used to determine the company’s value, market data on similar transactions, or other value indicators related to comparable businesses. The asset-based approach evaluates the company’s assets individually and at market value, discounts liabilities also at market value, and calculates the value of the company’s equity (Weil et al., 2017).

The DCF has its foundations in the income approach, although it is essentially a financial method. In a work focused on the performance of valuation professionals in litigation, Weil et al. (2017) point to this method as the core of finance and business valuation methods. Notwithstanding this claim, the purpose of this essay is not to discuss the supremacy (or not) of this method but to discuss, in theoretical terms, its relevance when used for lawsuits. It is reiterated that although the work of Weil et al. (2017) has the general objective of discussing the role of the appraiser, in the Brazilian case, of an expert in company valuation, its application in these situations occurs in a litigation scenario, which can be both judicial and extrajudicial. As a result, it is inferred that for these authors, even in judicial proceedings or extrajudicial discussions, this method is relevant.

According to the grounds presented in the Judgment (REsp 1.877.331), the DCF demands an estimate of future and uncertain events related to billing, profitability, the interest rate used in the discount, macroeconomic factors such as GDP growth rate, interest rate, unemployment rate, among other points. It was also considered that this method involves future and uncertain earnings and brings a bet on how the business will behave in the future, with stable or frequent profitability.

However, in an adverse way to what is manifested in said legal instrument, the DCF method can be used based on the condition of the company/entity at the time of the valuation, without projections based on growth or even based on the average earnings of previous years since there is variation in the numbers. This form of valuation is endorsed in CPC 00 R2 (2019) when the regulatory body advises that the economic value of an asset is based on the economic resource that the asset can generate and not on the future economic benefit that will be received. See that this guidance separates the measurement of an asset in its ability to generate economic benefits and not in its benefits to be generated.

Moreover, projections for changes in future cash flows due to increased economic activity, as well as the complementation of pricing models, such as the Capital Asset Price Model (CAPM), to determine the discount rate, are complements that are made mainly in publicly traded companies with trading on the stock exchange, as these offer the conditions for calculating the "beta." In the valuation of a privately held or medium-sized company, there is no rule in the literature that requires the inclusion of these additions in the calculation.

Thus, choosing the appraiser or even accounting expert to use the DCF method with these additions, the professional evaluates the enterprise based on the situation it is in on the date of the event. Even performing the valuation with the assumptions of the model, however, in the company's situation, the basic precepts for this type of valuation are not hurt, which are the estimation of cash flows and the discount rate. However, these flows may be in fixed amounts since they will derive from the company's situation at the time of valuation. To resolve discrepancies between better and worse years or even seasonality, the appraiser can also perform an average of the last 3 or 5 years, monetarily updating the values and thus determining the basis for the projections.

At this point, it is necessary to bring the concept of asset valuation to its current state. I consider that this can also be applied to generating future economic benefits. In this situation, the cash generation capacity will be according to the company's condition and capacity on the event date. If the company has an average flow of BRL 10,000.00 in the last 3 years, this will be the basis for the projections and the appropriate discounts. These BRL 10,000.00 reflect the enterprise's ability to generate economic benefits in the company's situation. Greater flows will result from the effectiveness of the new management, justifying in this new condition, the premise that the future, that is, increases in earnings derived from better management are the merits of the partners who continue in the business, thus not being the right of the retiring/deceased individual to future equity events. However, the ability to generate future benefits in the period the partner participated in the enterprise is incorporated, thus not causing loss to this part of the litigation. According to the literature and theoretical understanding, this condition of generating economic benefits is the basis for measuring assets. This argument is supported, for example, by Damodaran (2007) when reporting actions of analysts who use more conservative approaches in estimating cash flows, depending on the characteristics and conditions of the company, including ignoring flows with greater risk or even speculative forecasts.

Thus, the valuation based on past cash flows will reflect the company's situation until the retiring or deceased partner's exit. When estimating cash flows based on historical and updated data at the date of the valuation, it is possible to apply the necessary projection to the use of the DCF, established based on the capacity of the set of its assets to generate these benefits, that is, the capacity the company was until the moment of the partner's exit, which will also be the moment of the valuation unless expressly determined by the judge if it is under judicial discussion.

Finally, its ability to generate future benefits is intrinsically linked to the condition of an asset and, consequently, of the company. If recognized as an asset, it will generate future benefits. Thus, by not valuing the firm for this capacity, the appraiser may fall into the error of harming the dissenting party and guaranteeing illicit enrichment for the other.

3.1 Valuation methods of the company based on Discounted Cash Flow and Goodwill calculation

In the measurement of the value of a company and, as a consequence, in the preparation of the Balance of Determination, with the organization's ability to generate future economic benefits above the value of assets valued at the exit or market values, this company holds an intangible asset, Goodwill.

There are different methods for measuring Goodwill. For its calculation, Ornelas (2003) and Neiva (1997) divide above-normal earnings by a rate that reflects the company's cost of capital. This attribute considers both the ability to generate economic benefits, adding, as explained by Martins et al. (2001), that it stems from the ability to generate above-normal earnings and several other factors, such as skilled staff, commercial point, and expertise, among others. Notably, these above-normal earnings are represented by the excess earnings to an opportunity cost that can be the interest rate of risk-free investments (Ornelas, 2003; Neiva, 1997).

Even for this type of asset, the option to use the DCF method in expert work and studies related to the theme is evident. Caríssimo *et al.* (2016) showed a preference for expert accountants for this method; Strassburg & Moreno (2020), when analyzing two expert reports, found the use of DCF for determining assets; both Mazzei & Gonçalves (2020) and Garcia (2022) point out in the expert reports the valuation of companies based on the ability to generate income and the mention of DCF.

Santos (2011) exemplifies another way of calculating Goodwill due to the difference in the company's economic value deducted from the value of equity elements valued at market value. This difference, that is, this *surplus value* will be *Goodwill.* Thus, although there are other methods for measuring this intangible asset, such as Anglo-Saxon (Neiva, 1997) and several formulas presented by Ornelas (2003), the DCF can be applied in its measurement, corroborated in applied literature, as well as in empirical evidence.

3.2 The expectation of earnings and measurement of the company's value

As a result of these points addressed in this theoretical essay, it should be understood that the ability to generate future economic benefits from assets is inseparable. In the case of companies, this capacity will arise from their set of tangible and intangible assets.

Both the seller and the acquirer will evaluate from the perspective of these benefit flows: the expected cash flows. The seller will evaluate the assets based on the company's ability to generate these benefits to measure the fair value of the enterprise. The acquirer, in turn, will only be willing to pay a higher amount if the investment can be recovered. The same reasoning in the case of a Determination of Assets process. Although with a different interpretation of this essay and related to the one emanating from the Judgment above (REsp 1.877.331), Ornelas (2003 p. 134), when reporting on Goodwill, points out that business activity presupposes the generation of earnings and that a rational investor will pay an additional amount for this asset, only if it presents a return capacity that another investment and that "no entrepreneur will be willing to spend an excess value to obtain the same flow of future earnings."

In this sense, regardless of the method used in the valuation of the company, if there is a higher value of tangible assets at market value and fewer liabilities, the acquirer will only be willing to pay for this *surplus value* if the possibility of obtaining a return on this investment is within its horizon. This means stating that although in the Judgment rendered by the STJ, it is

understood that future and uncertain events (STJ, 2021 p. 28) with a relevant degree of uncertainty are not advisable for the Determination of Assets of the dissenting partner, such considerations run in the opposite direction to the literature and understanding in the economic, accounting, and finance field.

On the other hand, given the acquiring partner who continues in the enterprise or even has the reasoning of an investor, it will only be rational to pay a higher value for the enterprise if it has in its reasoning the possibility of obtaining a return in the future. This remaining partner in the business, by paying an additional amount from the disclosure in the accounting expert report of the existence of Goodwill, does so because the business offers an ability to generate economic benefits. It should be noted that this higher value will not concern the enterprise since it will be valued based on fair value. The higher value mentioned refers to the excess of the calculated value minus the total value of tangible assets, even when valued at market value minus liabilities. That difference is Goodwill. A business under the same conditions and activity developed but newly constituted would probably not have the same capacity to generate these earnings. Therefore, the heirs of the deceased partner or the dissenting partner have the right, including under the aegis of the concept of fair value, to receive this *surplus value* due to this intangible created, under penalty of illicit enrichment of the other party.

3.3 Cash flow measured according to the company’s condition

This point is fundamental in this essay and presents a different position, and may even be clarifying, when in the Judgment - REsp 1.877.331 - rendered by the 3rd Panel of the STJ. This judgment points to the impertinence of the DCF due to its uncertainty and subjectivity regarding the discount rate, risk factors, and macroeconomic factors such as the GDP growth rate, interest rate, etc.

When evaluating an investment, such as the feasibility of buying a certain share or even if the value of the share price is above or below the fair value of this share, we can use the DCF plus all these variables, such as the increase in revenues due to the expectation of an increase in GDP, the growth rate in earnings, etc. Yes, these procedures can make the measurement of the company’s economic value more robust.

However, we can also evaluate in the situation in which the asset is, that is, in the company’s condition at the time when the valuation must be made, obeying the premise of the condition of the asset for the valuation at fair value, that is, in the state in which it is. If it is a movable asset, such as a vehicle, it will be the condition of that vehicle on the date of the valuation considering wear, state of conservation, and capacity for use, among other points. In the case of the valuation of a company, it is understood that this condition will be determined by the ability that the company presents to generate future economic benefits to its owners/investors on the valuation date. And, in this, the DCF offers conditions for measurement considering this precept.

As for the discount rate being permeated by subjectivity in its preparation, this condition is inherent to any asset valuation premised on its valuation by the ability to generate economic benefits. In CPC 46 (2012), when addressing level 3 of information, it is emphasized that measurements that did not include an adjustment to reflect risk would not represent a fair value due to disregarding this variable. In the discount rate, the risks inherent to the enterprise are estimated, being diversifiable and non-diversifiable (Martelanc et al., 2010). Diversifiable risks are represented by specific events that affect a particular asset, such as regulatory actions of the industry the company is part of, customer losses, and labor issues, among others. The non-diversifiable ones arise from market factors that affect the entire economy, such as wars, inflation, and national and international crises. Due to these assumptions, the discount rate has as components a risk-free rate, representing the minimum expected return, plus a premium for this

risk, which will depend on the scenario related to diversifiable and non-diversifiable risks (Martins et al., 2001; Martelanc et al., 2010).

As emphasized, even in measuring the company's goodwill, there will be the appraiser's subjectivity in determining the above-normal earnings and the rate that will reflect the company's cost of capital. This argument is reinforced by what is expressed in CPC 46 (2012) in level 3 information on interest rates and discount and risk-free rates. However, despite this subjectivity, authors such as Martins and Lisboa (2005), Szüster and Szüster (2005), and Iudícibus (2007) justify this characteristic and ability of the appraiser through responsible subjectivity. This responsible subjectivity stems from the individual making choices for the assumptions of the valuation; however, based on literature and evidence that reinforces their option, it reduces the possibility of distorted valuations or those not loaded with the principles of fair value.

As for what the ministers expressed in the Judgment mentioned above about there still being risk, macroeconomic, and interest rate factors, which are implicit in the DCF and loaded with uncertainty, it should be clarified that such assumptions underlie the discount rate. This rate reflects the return the investor requires, considering the risks associated with the investment (Trugman, 2016). It can be determined, for example, by the Weighted Average Cost of Capital (WACC), which considers both the cost of equity and third-party capital in its measurement. These macroeconomic aspects and risk factors were implicitly the rates required by both investors (partners) and creditors (third parties) in the required return (Martins et al., 2001; Martelanc et al., 2010; Trugman, 2016).

Another relevant point in any asset measurement method is the expectation of future economic benefits. As stated earlier, it is inherent in the valuation of investment assets, and a company is so, both from the point of view of those who pay and those who receive. From the point of view of the seller or the retiring or deceased partner, the valuation of the fair value of their shares is based on the company's ability to generate future economic benefits if it is in continuity. It is worth mentioning that in companies with a prospect of discontinuity (constant losses), the assets will be valued based on their settlement value. On the other hand, the acquirer or the party that will pay for the shares will only be willing to pay a higher amount due to intangible attributes (Goodwill) if the future earnings horizon is ahead, which may be the perspective of earnings or cash flows.

Thus, based on these points and the search for fair value, the valuation, even if by the DCF, will be of the company's condition, and future increases in revenue resulting from growth rates, GDP, etc., can be disregarded. Moreover, a large part of future increases will result from the effectiveness of the new management, as previously argued. The prerogative that the "future" does not belong to the retiring or deceased partner is pertinent in this case. However, based on the fact that inherent to the asset is its ability to generate economic benefits, the company's valuation by the DCF will consider its condition at the time of valuation. This condition may be measured based on, for example, the average of past cash flows. Seasonality and variations are corrected, but the company's ability to generate economic benefits is not disregarded.

4 FINAL CONSIDERATIONS

In this theoretical essay, it was discussed whether the DCF relies on future and uncertain earnings, ignoring the risks of the business to the retiring partner and transferring it to the partners who remain in the business. The concept of asset, which is inherent to it, is the ability to generate future economic benefit, and it was discussed to support the discussion.

This condition of generating future economic benefits, whether in the form of cash flows or even gains, is recognized by the accounting and economic literature, and it is a driver for valuation methods, among them the DCF.

Thus, this essay brought arguments supported by the accounting and finance theoretical framework regarding the relevance of using this method, considering the assumptions of the assets as being able to generate future economic benefits and that this capacity leads to the valuation of a company. Moreover, the fair value was discussed, and the DCF is a referenced method for its calculation as a method supported by income. Also noteworthy in this essay is the presentation of literature that points to this method being used by accounting experts, both in Brazil and abroad, the expectation of earnings, the measurement of the company's value, and the risk embedded in the discount rate. It should be noted that the objective was not to face the judgment above but to discuss the use of this tool from a theoretical point of view.

As for the business risk issue, it is worth remembering that, intrinsically, the discount rate takes this restriction into account by incorporating this variable into its amount. Regarding the incorporation in the valuations, especially of larger and largely publicly traded companies, of macroeconomic factors such as the GDP growth rate and interest rate, the valuation option was defended and substantiated based on the company's situation at the valuation date. This assumption is based on the CPC, which directs the valuation of assets based on the situation in which they are.

Bringing another inference, if there was a hypothesis to be tested for the analysis of the relevance or not of the DCF, it could be from the following proposition: other methods of valuing companies that are not based on discounted cash flow, from the buyer's perspective, are not based on the expectation of future economic benefits. This hypothesis would be rejected when considering the arguments made in this theoretical essay and that other Goodwill valuation methods divide the basis for their measurement by a rate that reflects the company's cost of capital. This is because by dividing the Goodwill calculation basis by this rate and calculating a higher value, that is, a *surplus value*, this amount will only be recovered by the acquirer or by those who are paying the value of the shares in future years. That is, even in a specific method for calculating Goodwill, intrinsically in its formula, there is a future time horizon to recover the investment. As a result, the acquirer or the partner who continues in the enterprise pays this additional amount due to recognizing the company's ability to offer, in this future time horizon, the ability to generate earnings. Otherwise, they would not be willing to assume this burden.

When considering the arguments and grounds presented in this essay, the relevance of using Discounted Cash Flow in determining asset cases is considered.

Finally, it is expected that this essay can contribute to the debate and understanding of this method of valuing companies and its use in the legal and forensic accounting environment to collaborate for social justice in the incorporation of fair value in valuations. In future research, content analysis in expert reports that have used the DCF and which assumptions for valuation can offer a more detailed overview of the criteria used in the valuations in this type of demand.

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CONFLICTS OF INTEREST

The author state that there is no conflict of interest with respect to this submitted work.