



The accounting value and the market value of equity - The Feltham-Ohlson model

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The markets have become global and the various financial centers and major banks start permanently in a competitive process without precedent. These developments have led to the emergence and expansion of financial assets, whose use requires additional competence and guidance. Their use can not be conceived without a real support in assessment, to provide their fair value as determined by the most appropriate method, with information from specialized markets. Financial valuation model of Feltham-Ohlson is considered a tool to study financial markets, used by practitioners for the analysis and the ability to guide accounting and financial options or the ones related to managerial decisions. The model has essentially an accounting content, based on anticipation of future dividends. Feltham and Ohlson propose an innovative approach of the valuation of the enterprise by linking market value of equity to its accounting value, which is added to an updated value of future "abnormal" earnings. Linear information model (LIM) represents the estimated part of the value of the enterprise, taking into consideration the precautionary principle attached to the value of accounting results. Relevancy of the company's financial position is judged by the strength of financial assets and the operating assets to generate future cashflows. Operating assets are able to emit a return higher than originally anticipated and that is what the authors qualify as a residual result.