

2. Business Valuation

Content

- Legal Regulation in the Czech Republic
- Expert`s Report
- Business Conception
- Economics Scheme of Business
- Assets
- Equity
- Liabilities
- Valuation principles
- Task for the next lecture

Legal Regulation in the Czech Republic

According to Act. no. 36/1967 Coll., about Expert Witnesses and Interpreters

- expert witness
- official referee
- authorized expert
- skilled witness

Established by the Minister of Interior or by the judge of district court

Legal Regulation in the Czech Republic

According to Act. no. 455/1991 Coll., Trade Code

- valuer
- estimator
- evaluator
- appraiser
- assessor
- surveyor

Business - trading licence

Expert's Report

Content and Structure

- Expert's determination
- Judgement

Business Conception

In economics sense - enterprise, firm, company

Business is a legally recognized organization designed to provide goods and/or services to consumers. Sullivan, Arthur; Steven M. Sheffrin (2003). Economics: Principles in Action. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. pp. 29.

Business is money engine.

Business Conception

According to COMMERCIAL CODE No. 513/1991 Coll., as subsequently amended "Obchodni zakonik":

For the purposes of this Code, an enterprise is understood to be the aggregate of tangible, personal and intangible components constituting a business activity. Things, rights and other property values which belong to the entrepreneur and which are used to operate the enterprise, or which, because of their nature, are intended to serve this purpose, are appurtenant to the enterprise.

An enterprise is a collective thing (universitas rerum). Its legal relations shall be subject to the provisions concerning things in the legal meaning. This shall not affect the scope of specific statutory "provisions on real estate (immovables), objects of industrial intellectual (intangible) and other intellectual rights, motor vehicles, etc., if these form part of an enterprise.

Under the Commercial Code, an enterprise is regarded as an object of legal relations, and it corresponds roughly to the French concept of "fonds de commerce".

The definition does not mention debts (liabilities) pertaining to an enterprise. Nevertheless, in the case of sale of an enterprise, debts pertaining to the enterprise are sold together with the enterprise.

An entrepreneur may own more than one enterprise.

Economics Scheme of Business

- general accounting rules
- fundamental accounting statement
 - balance sheet
 - income statement
 - cash flow statement

Assets

Existing Investments
Generate cashflows today
Includes long lived (fixed) and
short-lived (working
capital) assets

Assets in Place

Expected Value that will be
created by future investments

Growth Assets

Liabilities

Debt

Fixed Claim on cash flows
Little or No role in management
Fixed Maturity
Tax Deductible

Equity

Residual Claim on cash flows
Significant Role in management
Perpetual Lives

Assets		Liabilities	
<p>What are the assets in place? How valuable are these assets? How risky are these assets?</p>	Assets in Place	Debt	<p>What is the value of the debt? How risky is the debt?</p>
<p>What are the growth assets? How valuable are these assets?</p>	Growth Assets	Equity	<p>What is the value of the equity? How risky is the equity?</p>

- What are the assets that the firm has in place already, and how much are they worth?
- What are the growth assets of the firm and what is their value?
- What is the firm earning on its assets in place, and what can it expect to earn on these same assets as well as its growth assets?
- What is the mix of debt and equity that the firm is using to finance these assets?
- How much risk is there in this firm, and what is the cost of its debt and equity financing?

Assets

Assets are things that the company owns. They are the resources of the company that have been acquired through transactions, and have future economic value that can be measured and expressed in money.

Assets also include costs paid in advance that have not yet expired, such as prepaid advertising, prepaid insurance, prepaid legal fees, and prepaid rent.

Fixed Assets

- Property
- Plant
- Equipment
- Investment property
- Financial assets
- Biological assets - biological assets, agriculture, sivilculture, horticulture

Current Assets

- Cash and cash equivalents
- Inventories
- Account receivable
- Prepaid expenses

Equity

so called shareholders' equity

- Authorised capital
- Par value of shares
- Authorized shares (fully paid and not fully paid)
- Treasury shares, shares held by subsidiaries and associates
- Reserve funds
- Profits
- Retained profits

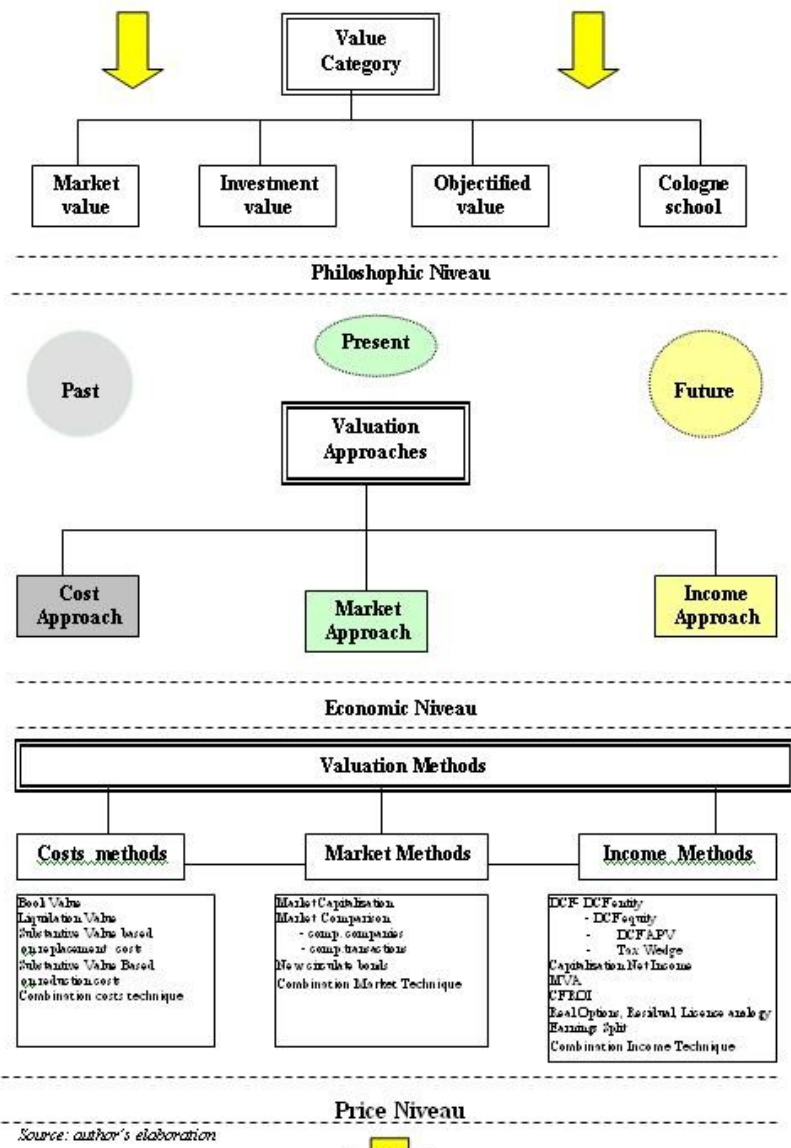
Liabilities

- Account payable
- Financial liabilities
- Deferred tax liabilities
- Liabilities for current tax
- Reserves
- Unearned revenue for services paid for by customers but not yet provided

Example of small business balance sheet

Balance Sheet		
As of Dec. 31, 2004 (000's)		
<i>Assets</i>	<i>2004</i>	<i>2003</i>
Cash and Equivalents	52,000	57,600
Accounts Receivable	402,000	351,200
Inventory	836,000	715,200
<i>Total Current Assets</i>	<i>1,290,000</i>	<i>1,124,000</i>
Plant & Equipment	527,000	491,000
Accumulated Depreciation	166,200	146,200
<i>Net Fixed Assets</i>	<i>360,800</i>	<i>344,800</i>
<i>Total Assets</i>	<i>1,650,800</i>	<i>1,468,800</i>
<i>Liabilities and Owner's Equity</i>		
Accounts Payable	175,200	145,600
Short-term Notes Payable	225,000	200,000
Other Current Liabilities	140,000	136,000
<i>Total Current Liabilities</i>	<i>540,200</i>	<i>481,600</i>
Long-term Debt	424,612	323,432
<i>Total Liabilities</i>	<i>964,812</i>	<i>805,032</i>
Common Stock	460,000	460,000
Retained Earnings	225,988	203,768
<i>Total Shareholder's Equity</i>	<i>685,988</i>	<i>663,768</i>
<i>Total Liabilities and Owner's Equity</i>	<i>1,650,800</i>	<i>1,468,800</i>

Source



Task for the next lecture

Conception and contents according to legislature in your country or IFRS:

- Balance Sheet Statement
- Income Statement (Profit and Loss Statement, Earnings Statement, Statement of Operation)
- Cash Flow Statement

Thank U for Attention!