

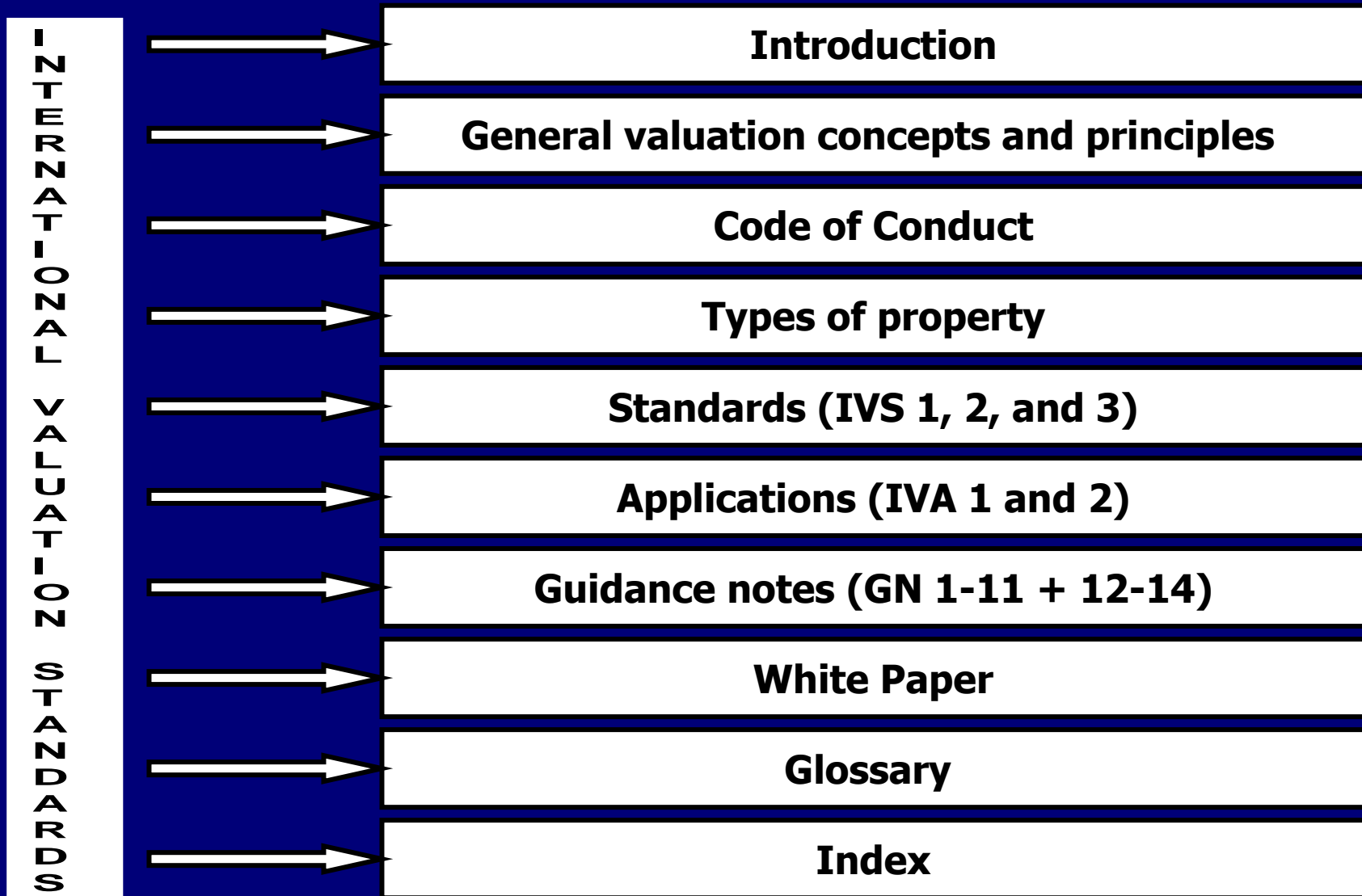


International Valuation Standards (IVS)

Lecturer: Nina Milenković

Sarajevo, 24-25 February 2005

Content of International Valuation Standards



Content of International Valuation Standards

- **Introduction**

- **About the International Committee for Valuation Standards (history, membership, functions, results)**

- **About International Valuation Standards**

- **Goals and scope**
 - **Organization**
 - **Format (structure)**
 - **Dates of adoption**

Content of International Valuation Standards

- **General Concepts and Principles of Valuation**
 - **Land and property**
 - **Real estate, property, assets**
 - **Price, cost, market, and value**
 - **Market value**
 - **Best utilization**
 - **Usefulness**
 - **Other important concepts**
 - **Approaches in valuation**



Content of International Valuation Standards

- **Code of Conduct**

- **Scope**
- **Definitions**
- **Ethics**
- **Competency**
- **Disclosures (explanations and statements)**
- **Reporting the value**

- **Types of property**

- **Real property**
- **Personal property**
- **Business**
- **Financial interest**



Content of International Valuation Standards

- **Standards**

- **Introduction: defining concepts of market and “non-market” values**
- **IVS 1: Valuation based on market value concept**
- **IVS 2: Valuation based on other (“non-market”) concepts**
- **IVS 3: Appraisal Report**

- **Applications**

- **IVA 1: Appraisal necessary for composing financial statements**
- **IVA 2: Appraisal necessary for securing of debts**

- **White Paper**

- **Appraisal of value in conditions of emerging markets**

Content of International Valuation Standards

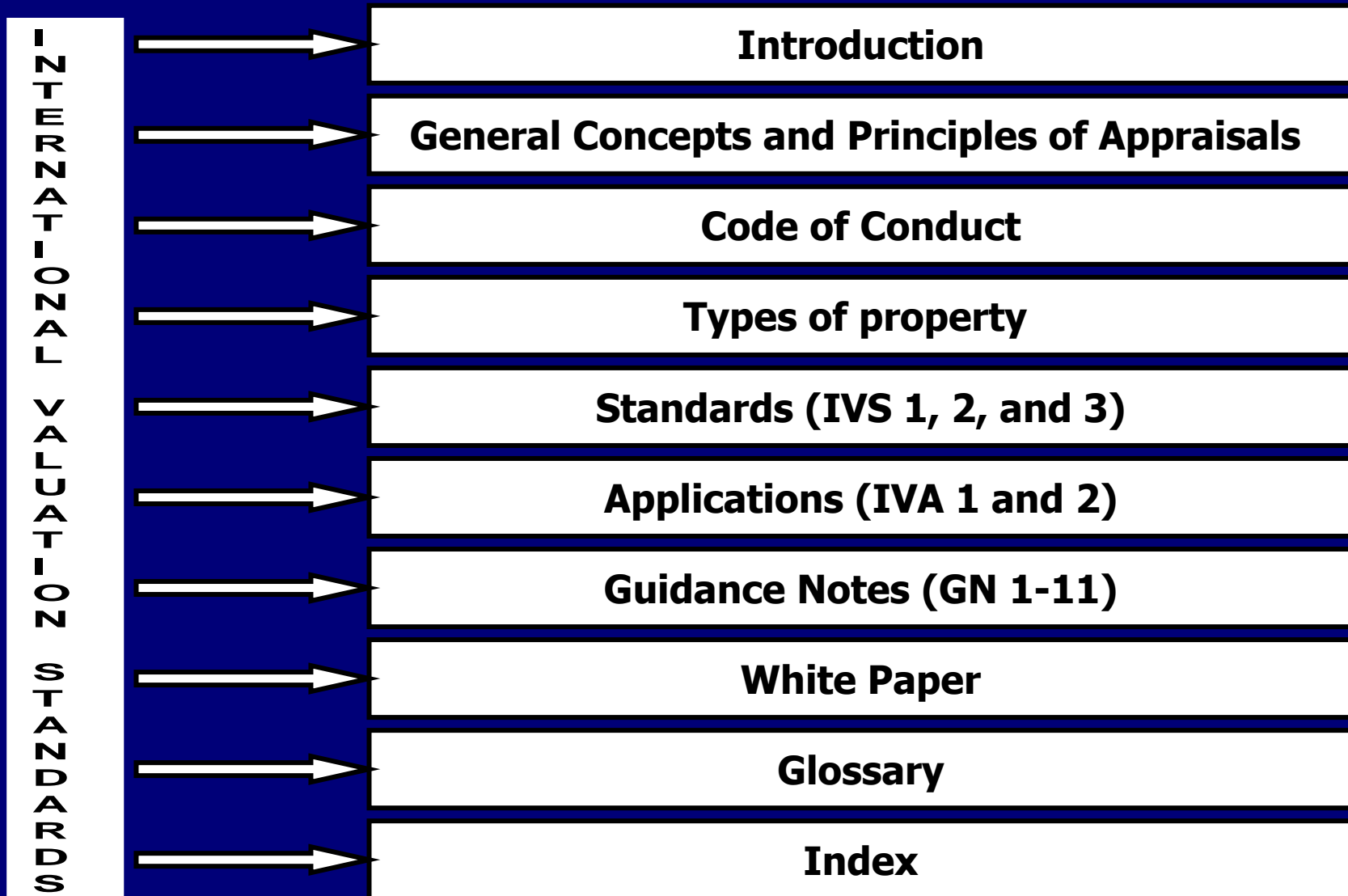
● Guidance Notes

- GN 1: Appraisal of real property**
- GN 2: Appraisal of leased property**
- GN 3: Appraisal of facilities and equipment**
- GN 4: Appraisal of intangible property**
- GN 5: Appraisal of personal property**
- GN 6: Appraisal of company's value**
- GN 7: Appraisal of property exposed to hazardous and toxic substances**
- GN 8: Depreciated replacement costs (DRC)**
- GN 9: Discounted cash flow (applied in market and "non-market" valuation concepts)**
- GN 10: Appraisal of agricultural property**
- GN 11: Appraisal control**

Content of International Valuation Standards

- **Guidance Notes added in seventh edition of IVS (February 2005)**
 - **GN 12: Appraisal of specialized trading property**
 - **GN 13: Group (large-scale) appraisal for property tax purposes**
 - **GN 14: Appraisal of property in extracting industries**

Content IVS 2003



Professional Codes

- **IVS Code of Conduct**

- **Scope and definitions**

- **Ethics**

- **Integrity**
- **Conflict of interest**
- **Confidentiality**
- **Independence**

- **Competency**

- **Accepting instructions**
- **External cooperation**
- **Efficiency and diligence**

- **Disclosure (explanations and reports)**

- **Reporting values**

- **ASA Principles of Appraisal Practice and Code of Ethics**

- **Scope and definitions**

- **Goals of appraisal work**

- **Primary duties and responsibilities of appraiser**

- **Appraiser's responsibilities to client**

- **Appraiser's responsibilities to colleagues and to the Association**

- **Appraisal methodologies and practice**

- **Unethical and unprofessional appraisal procedures**

- **Appraisal report**

IVS Code of Conduct

- **Scope**

- **Appraisers accept the IVS willingly or in compliance with the laws**
- **Code has no formal significance**
- **Acceptability of appraisal**

- **Definitions**

- **Assumptions**
- **Limiting circumstances**
- **Appraiser (internal and external)**

IVS Code of Conduct

● Ethics

→ Integrity

- **Honesty, law compliance, and regulations**
- **Unacceptable ambiguity, frauds, inaccuracies, bias**
- **Unacceptable abuse or inappropriate interpretation of professional license**
- **Unacceptable advertising based on false statements**

→ Conflict of interest

- **Providing the same service to a number of clients**
- **Conflict of interest of different clients, valuation companies, personal...**

→ Confidentiality

→ Independence and impartiality

- **Objectivity, independence, impartiality**
- **Rejection of results or conclusions imposed in advance**
- **Unconditional fees**
- **Data check**
- **Hypothetical presumptions**
- **Objectivity in control of work of others**

IVS Code of Conduct

● Competency

→ Accepting instructions

- Before accepting an assignment, appraiser must be confident about having necessary knowledge, experience, and knowledge of appropriate market, law, and language**

→ External cooperation

- Ensuring associates' competency**
- Clients concurrence and notice in report**

→ Efficiency and thoroughness

- Efficiency in performance of tasks, keeping the clients permanently informed**
- Refusing "impossible missions"**
- Defining engagement in writing**
- Independence check of data and information**
- Preparation and safekeeping of attached documentation (5 years)**

IVS Code of Conduct

- **Disclosure (explanations and statements)**

- **Defining engagement, presumptions, scenarios, limiting circumstances**
- **explanations for any selections, calculations, and conclusions**
- **Disclosing potential conflict of interest**
- **Draw boundaries in relationship with client (internal/external appraiser)**
- **Limitations related to appraisal quality and external associates**
- **Limited options for utilization of an appraisal**
- **Disclosing departures for the Standard**

- **Reporting values**

- **Defining engagement, description of work, presumptions, scenarios, limiting circumstances**
- **Statement asserting that the appraisal is in compliance with the IVS (and possible departures)**
- **Professional qualifications and signature of appraiser**
- **Specific statements in compliance with local regulations**

ASA PAP and Code of Ethics

- **Scope and definitions**

- **ASA membership**

- **Defining “Appraisal Practice” and “property”**

- **Goals of the Code**

- **Informing clients**

- **Instructions for members**

- **Assistance in achieving the Association goals (expansion, improvement, development...)**

- **Instruction for candidates**

- **Emphasizing positive examples**

- **Goals of appraisal work**

- **Different types of goals (purpose and intention)**

- **Objective character of results**

ASA PAP and Code of Ethics

- **Primary duties and responsibilities of appraiser**
 - **Duty to determine and describe appropriate definition of value**
 - **Duty to determine numerical result with appropriate level of accuracy, in accordance with specific requirements of assignment**
 - **Obligation to avoid incorrect numerical result**
 - **Obligation to display competency and ethics**
 - **Obligation to display professionalism**
 - **Obligation to third person**

ASA PAP and Code of Ethics

- **Obligations of appraiser towards a client**
 - **Confidential character of appraisal**
 - **Obligation to provide competent service**
 - **Obligation related to testimony**
 - **Obligation to document testimony (or appraisal)**
 - **Obligation in case multiple clients require the same service**
 - **Contracts on appraisal services**
- **Obligations of appraiser towards colleagues and the Association**
 - **Protection of colleagues' professional reputation**
 - **Obligations related to disciplinary actions of the Association**

ASA PAP and Code of Ethics

- **Appraisal methodology and practice**
 - **Different types (definitions) of value**
 - **Selection of appraisal method**
 - **Appraisal of parts of property/company (fractional appraisals)**
 - **Unforeseen and limiting circumstances**
 - **Hypothetical appraisal**
 - **Inaccessibility of important data**
 - **Value presented as range**
 - **Value under different presumptions (scenarios)**
 - **Visit, inspection, analysis, and description of appraisal subject**
 - **Cooperation between appraiser and using expert services from other professions**

ASA PAP and Code of Ethics

- **Unethical and unprofessional appraisal procedures**
 - **Conditioned fees**
 - **Percentage fees**
 - **Existence of ownership interest**
 - **Responsibility regarding signing of reports**
 - **Advocacy**
 - **Superficial conclusions and preliminary reports**
 - **Advertising services and attracting clients**
 - **Abuse of professional license**
 - **Reasons for disciplinary actions of Association**

ASA PAP and Code of Ethics

- **Appraisal report**

- **Description of property which is subject of appraisal**
- **Defining goals of appraisal**
- **Stating unforeseen and limiting circumstances related to appraisal**
- **Description and explanation of used appraisal methods**
- **Statement of appraiser's independence**
- **Appraiser's responsibility for clarity and unambiguousness of analysis, opinions, and conclusions presented in the report**
- **Statement on obligation to renew the license**
- **Signing reports and including opposite opinions**

Content IVS 2003

INTERNATIONAL STANDARDS
ON
ASSURANCE
AND
RELATED
SERVICES



Code of Conduct

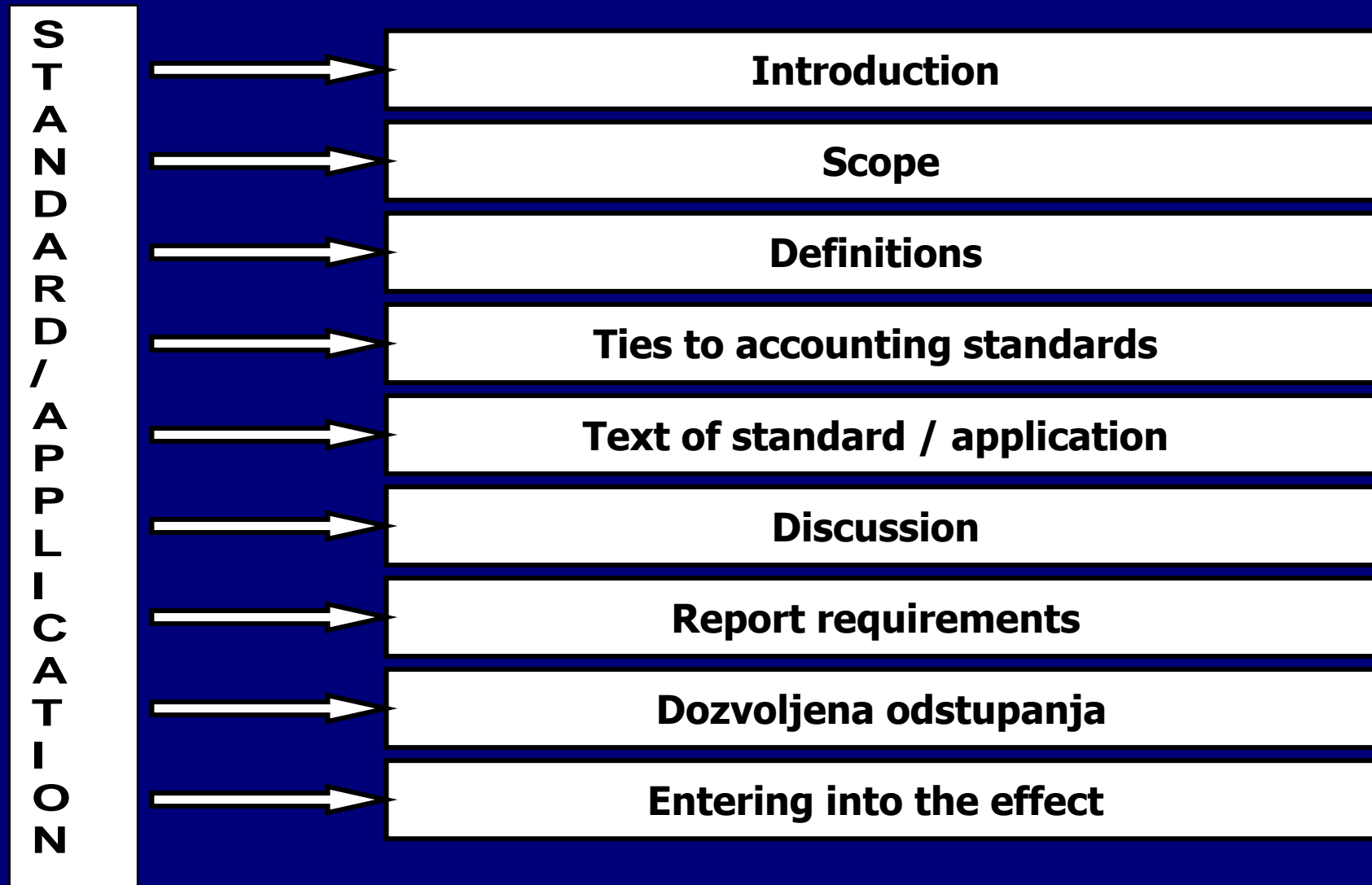


Standards (IVS 1, 2, and 3)



Guidance Notes (GN 1-11)

Structure of Standards and Applications



IVS 1: Appraisal of Market Value

● Scope

- IVS 1 relates to **MARKET** value of *property*, primarily real property, as well as connected elements
- Appraised property is treated as subject of sale in the (open) market, and not as part of going-concern

● Definitions

- **Market value is evaluated cash amount for which the property could be traded on certain date, in transaction between interested buyer and interested seller, under objective circumstances ("arm's length"), after appropriate marketing, where both parties possess appropriate knowledge and information, and act with no coercion.**
- **HABU - Highest and Best Use: most likely use physically possible, legally allowed, financially feasible, and results in highest value of property**

IVS 1: Appraisal of Market Value

- **Ties to accounting standards**

- **Appraisal for financial reporting purposes – Financial reporting standards; elaborated in detail in IVA 1**

- **Fair value of fixed assets is most often their market value**
- **If the market value cannot be appraised, DRC is used (Depreciated Replacement Costs)**
- **IAS 16**

- **Drawing boundaries between accounting and appraisal terminology; use of the term “assets” allowed in stead of “property”**

IVS 1: Appraisal of Market Value

● Standard

→ Compliance with IVS 1 means compliance with the Code

→ In appraisal of market value appraiser must:

- Perform and explain appraisal in unambiguous and clear manner**
- Ensure that used data is market data**
- Ensure use of appropriate methods and techniques**
- Ensure sufficient information for analysis, conclusion, and results to be completely comprehensible to report user**
- Compose report in compliance with the IVS 3, i.e. include in the report:**
 - Defining the assignment, presumptions, scenarios, limiting circumstances**
 - Description and explanation of used appraisal methods**
 - Explanations for all selections, calculations, and conclusions**
 - Disclosing potential conflict of interest**
 - Drawing boundaries in relationship with client (internal/external appraiser)**
 - Limitations related to appraisal quality and outside associates**
 - Limiting options for use of appraisal**
 - Disclosing departures from the Standards**

IVS 1: Appraisal of Market Value

- **Requirements in terms of reporting**

- **Mostly contained in the text of the standards**

- **Mandatory to state definition of the market value and the best use of property**

- **In accordance with IVS 3**

- **Allowed departures**

- **Only if in compliance with IVS 3**

- **Entering into effect**

- **July 1, 2000 (*)**

(*) Unless it was changed in the seventh edition, in February 2005.

IVS 2 : Appraisal of "Non-Market" Values

- **Scope**

- IVS 2 refers to "***NON-MARKET***" concepts of property value

- **Definitions**

- **Utilization value**

- **Partial (limited) market value**

- **Special purpose property**

- **Investment value**

- **Going-concern value**

- **Insurance value**

- **Tax base value**

- **Depreciated replacement costs (DRC)**

- **Liquidation value**

- **Remaining value**

- **Special value**

- **Mortgage value**



IVS 2 : Appraisal of "Non-Market" Values

- **Ties to accounting standards (as with IVS 1)**

- **Appraisal for financial reporting purposes – Standards of financial reporting; elaborated in detail in IVA 1**

- **Fair value is mostly their market value**
 - **If appraisal of market value is not possible, DRC is used (Depreciated replacement costs)**
 - **IAS 16**

- **Drawing boundary between accounting and appraisal terminology**

IVS 2 : Appraisal of "Non-Market" Values

● Standard

→ Compliance with IVS 2 implies compliance with the Code

→ In appraisal of "non-market" value the appraiser must:

- Perform and explain the appraisal in unambiguous and clear manner**
- Ensure that used data is task appropriate**
- Ensure use of appropriate methods and techniques**
- Ensure sufficient information for analysis, conclusion, and results to be completely comprehensible to report user**
- Compose report in compliance with the IVS 3, i.e. include in the report:**
 - Defining the assignment, presumptions, scenarios, limiting circumstances, and it should be indicated that the value is non-market**
 - Description and explanation of used appraisal methods**
 - Explanations for all selections, calculations, and conclusions**
 - Disclosing potential conflict of interest**
 - Drawing boundaries in relationship with client (internal/external appraiser)**
 - Limitations related to appraisal quality and outside associates**
 - Limiting options for use of appraisal**
 - Disclosing departures from the Standards**

IVS 2 : Appraisal of "Non-Market" Values

- **Requirements in terms of reporting**
 - **Mostly contained in the text of the standards**
 - **Mandatory to state definition of the value, with note that it is non-market**
 - **Must state limiting and unforeseen circumstances**
 - **In accordance with IVS 3**
- **Allowed departures**
 - **Only if in compliance with IVS 3**
- **Entering into effect**
 - **July 1, 2000 (*)**

(*) Unless it was changed in the seventh edition, in February 2005.

IVS 3: Appraisal Report

- **Scope**

- **IVS 3 relates to *all types* of appraisal reports**
- **It is mandatory both for internal and external appraisers**
- **In special cases IVA 1 and IVA 2 are authorized**

- **Definitions**

- **Appraisal report**
- **Verbal report**
- **Written report**
- **Defining (specification) of appraisal assignment**
- **Statements of compliance with the standards**
- **Special, uncommon, or atypical presumptions**

IVS 3: Appraisal Report

- **Ties to accounting standards**

- **Whenever possible, meet the requirements of International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSAS) (*)**

- **Appraisal for financial reporting purposes, elaborated in IVA 1, also subject of this standard**

(*) Probably IFRS also (International financial Reporting Standards)

IVS 3: Appraisal Report

● Standard

→ Compliance with IVS 3 implies compliance with the Code

→ Elaborates in detail the content of report

- All definitions, assumptions, data, analysis, conclusions... Must be clearly and unambiguously presented**
- Any limitations regarding the use of the report**
- All statements of independence, standards, confidentiality etc**
- All necessary data about the appraiser**

→ Defines use of electronic form of reporting

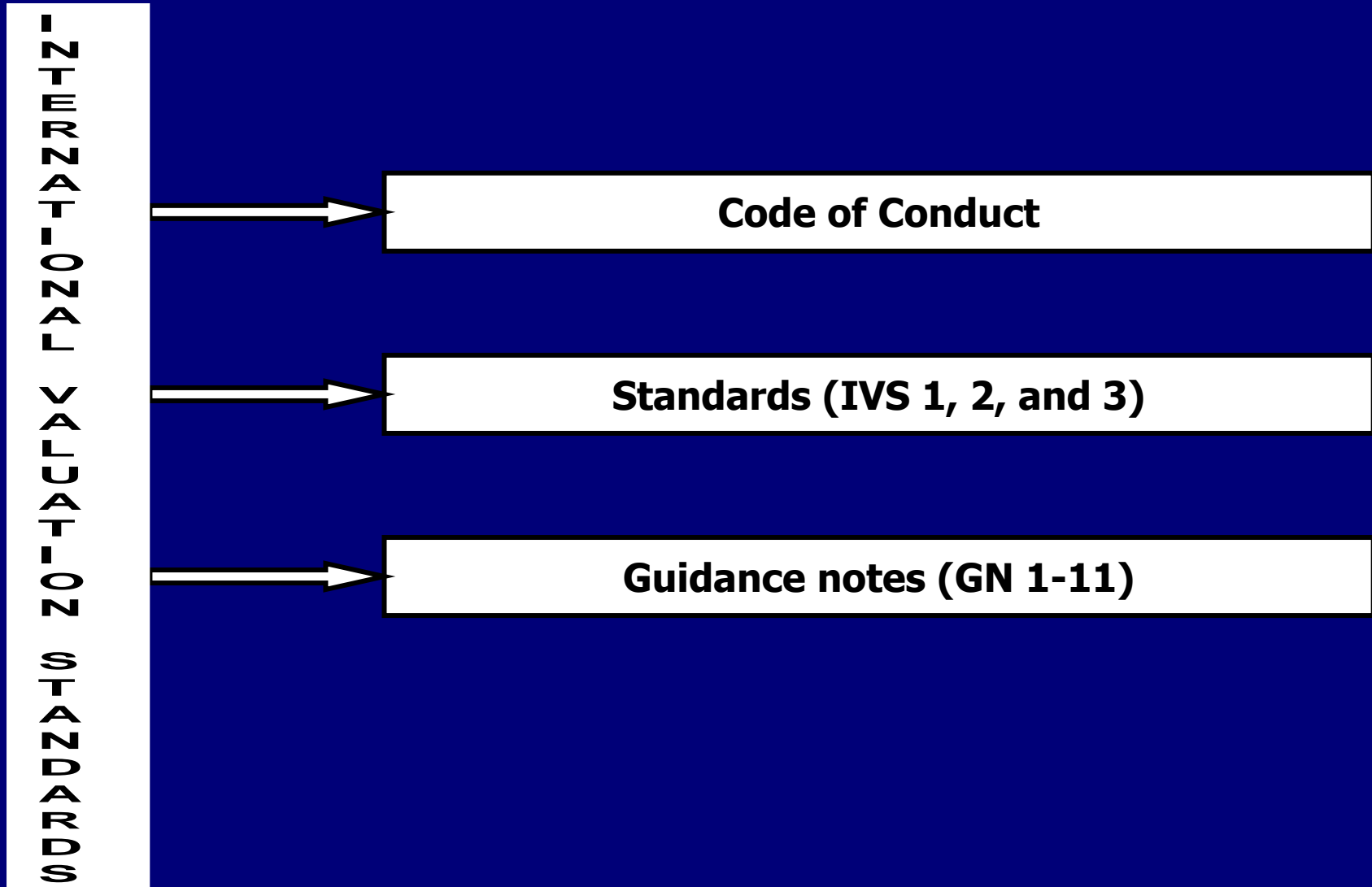
→ Obligation of creating and safekeeping of working documentation (5 years)

IVS 3: Appraisal Report

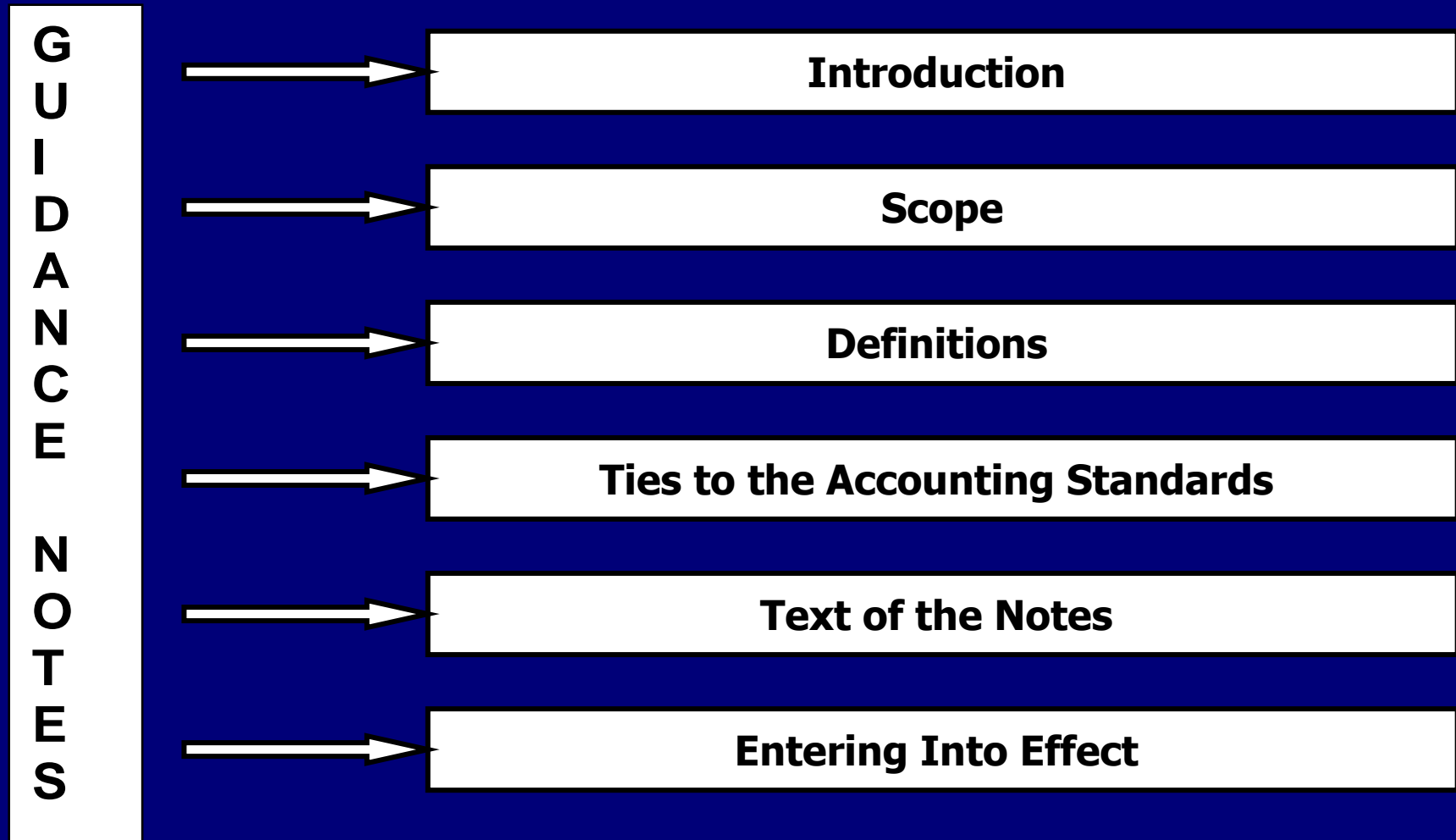
- **Reporting requirements**
 - **Contained in text of the standard**
 - **Appraiser must clearly indicate his/her role (internal, external, consultant etc)**
- **Allowed departures**
 - **No departures are allowed in terms of clarity and accuracy of conclusions, or basic assumptions and limiting circumstances**
 - **In special cases, only if they are clearly disclosed, and do not jeopardize credibility of results**
- **Entering into effect**
 - **April 30, 2003 (*)**

(*) Unless changed in the seventh edition, February 2005.

Content IVS 2003



Structure of Guidance Notes



GN 1: Appraisal of Real Property

- **Scope**

- **GN 1 refers to appraisal of real property**

- **Basic elements of GN 1:**

- **Key terms**
 - **Summary of appraisal procedure**
 - **Explanation of significance of principles and concepts**
 - **Discussion requires reporting**
 - **Presentation of the notes**

- ***ITS PURPOSE IS NOT TO PRESCRIBE METHODOLOGY***

- **Ties to accounting standards: through IVA 1**

- **Entering into effect: April 30, 2003 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 1: Appraisal of Real Property

- **Definitions**

- **General concepts and principles**
- **Comparable data**
- **Comparison elements**
- **Best use**
- **Market**
- **Market value**
- **Ownership rights**
- **Real estate / real property**
- **Units of comparison**
- **Cost approach**

GN 1: Appraisal of Real Property

● Instruction

- Clearly distinguish whether the market value is being appraised or not, and use appropriate standard**
- Differentiate appraisal process from appraisal report**
- Appraisal process**
 - Defining the assignment**
 - Gathering, selection, and analysis of data**
 - General data (macroeconomic, regional etc)**
 - Specifics of the appraised property (history, costs, prices, revenues, use)**
 - Comparative (competition, similar transactions etc)**
 - Analysis of the best use (land as free)**
 - Assessment of land value**
 - Implementation of appraisal approach and method (cost, market, return)**
 - Making the conclusion on the value**
 - Writing the report**

GN 1: Appraisal of Real Property

- Insist on client's instructions and assignment definition in writing**
- When using (analyzing) comparative data, it is important to establish elements of comparability, for example**
 - Physical characteristics**
 - Economic (financial) characteristics**
 - Utilization**
 - Ownership rights**
 - Location**
 - Financial and other terms of sale**
 - Market conditions**
 - Possible costs incurred immediately upon a sale**
 - Non real property transaction elements**

GN 1: Appraisal of Real Property

→ Three possible approaches in appraisal of real property

- **Cost approach**
- **Comparison of sales prices**
- **Capitalization of return**

→ When it is not possible to determine market value, “surrogate” is used – Depreciated replacement costs (DRC), explained in GN 8

→ Three types of depreciation – decrease of value (obsolescence)

- **Physical**
- **Functional/technological**
- **External (economic)**

→ Mandatory analysis of life span and best use

- **Legality, feasibility...**

GN 1: Appraisal of Real Property

→ Primary methods in appraisal of land

- **Direct comparison of sales prices**
- **Division into profitable parts**
- **Allocation (land/infrastructure)**
- **Extraction (value of infrastructure)**
- **Residual method**
- **Rent capitalization**

→ Problems with real estate market

- **Compared to other markets (goods, services, cash...) still inefficient**
- **Investments high, and with longer return period**

→ Cost approach is the most applicable if real property is rather new

GN 2: Appraisal of Leased Property

- **Scope**

- **GN 2 refers to appraisal of leased property**

- **It is applied in accordance with the general concepts and principles, as with IVS 1 and IVS 2 as well**

- **Applicable only in countries where right of lessee of leased real estate is treated as special type of property**

- **Ties to accounting standards: IAS 17, IAS 16, IAS 40**

- **Entering into effect: July 1, 2000 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 2: Appraisal of Leased Property

● Definitions

→ Lease

→ Lessor

→ Lessee

→ Lease levels

→ Lease types

- Land lease**
- Percentage lease**

→ Types of rent

- Market rent**
- Contractual rent**
- Proportional rent**

→ Operative lease

→ Financial lease

→ Value component (for owner and for lessee)

→ Sale and reversed lease

GN 2: Appraisal of Leased Property

● Instruction

- It is necessary to consider in detail specific contracts and resulting rights**
- Pay special attention to possibility of multilevel lease**
- Each right over property must be appraised separately**
- If market value is being appraised, use market rent**
- If investments were made in leased property, it can be appraised with or without improvements (in second case, improvements are appraised separately and subtracted from "improved" value)**
- It is possible that leased property may have negative value**
 - If it is a liability for client**
 - If contractual rent is significantly higher than the market one**
- It is always necessary to use original contracts**

GN 3: Appraisal of Facilities and Equipment

- **Scope**

- **GN 3 refers to appraisal of facilities and equipment (overlaps partially with the GN 1)**

- **Implemented in accordance with the IVS 1 and 2, and IVA 1**

- **Ties to accounting standards: through IVA 1**

- **Entering into effect: July 1, 1997 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 3: Appraisal of Facilities and Equipment

- **Definitions**

- **Facilities**

- **Machines**

- **Equipment**

- **Market value**

- **Utilization value**

- **Liquidation value**

- **Salvage value**

- **Insurance value**

- **Auction value**

- **Reproduction value**

- **Value for compensation of damages**

GN 3: Appraisal of Facilities and Equipment

● Instruction

→ Mostly as GN 1

→ It is possible that same assignment may require appraisals for several definitions of value – in that case they should be clearly defined and separated

→ For common parts of several facilities or machines, make sure no omissions or duplications are made (especially if they are related to already appraised real estates)

→ Four basic categories

- Machines and equipment installed in strict relation to basic activity**
- Ancillary equipment (furniture, vehicles, molds, tools...)**
- Edifices or parts of edifices fused with equipment or process**
- Installations and infrastructure (usually appraised within buildings)**

→ In case of appraisal of liquidation value, keep in mind the period of liquidation

GN 4: Appraisal of Intangible Property

- **Scope**
 - **GN 4 refers to appraisal of intangible property (assets)**
 - **Although specific, it is closely tied to all three IVS**
- **Ties to the accounting standards: IAS 38 and through IVA 1**
- **Entering into effect: July 1, 2000 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 4: Appraisal of Intangible Property

● Definitions

- Book value**
- Company (business)**
- Capitalization (factor, rate)**
- Cash flow (gross, from own capital, from invested capital)**
- Discount rate**
- Economic life span**
- Going Concern**
- Goodwill**
- Legal life span**
- Return, market, and cost approach**
- Intangible investments (rights, relationships, intellectual property, other)**

GN 4: Appraisal of Intangible Property

● Instruction

→ Appraisal is mostly based on clients data – quote

→ Important factors in appraisal

- Possibility of precise identification**
- Rights and obligations related to possession of assets**
- Remaining economic or legal life span**
- Earning capability**
- Nature and history of assets**
- (Macro)economic circumstances (existing and expected)**
- Earlier transactions related to an asset**
- Market prices of similar or same assets**

→ Three approaches in appraisal (cost, market, return)

GN 5: Appraisal of Personal Property

- **Scope**

- **GN 5 refers to appraisal of personal property not handled in GN 3**

- **Facilities and equipment also represent personal (moveable) property (GN 3)**

- **Ties to the accounting standards: through IVA 1**

- **Entering into: April 30, 2003 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 5: Appraisal of Personal Property

- **Definitions**

- **Auction price**

- **Agreed price**

- **Collection**

- **Cost, return, market approach**

- **Furniture and office equipment**

- **Inventory**

- **Capitalization of profit**

- **Essential value**

- **Investments in rented property**

GN 5: Appraisal of Personal Property

- **Instruction**

- **Mostly as GN 3**

- **Necessary to consider (and appraise) intangible part of value (overlapping with GN 4)**

GN 6: Appraisal of Company Value

- **Scope**

- **GN 6 refers to appraisal of value of a company as a whole**

- **Cannot be considered separately from the IVS**

- **Ties to the accounting standards: through IVA 1**

- **Entering into effect: July 1, 2000 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 6: Appraisal of Company Value

● Definitions

- Book value and corrected book value**
- Approach based on property (cost)**
- Return approach**
- Market approach**
- Company**
- Premiums and discounts**
- Cash flow, discount rate, residual value**
- Own and invested capital**
- Return rate**
- Permanent working capital**

GN 6: Appraisal of Company Value

- **Instruction**

- **Fully encompassed by the previous seminar**

- **Appraisal steps**

- **Defining assignment**
 - **Data gathering**
 - **Data analysis**
 - **Selection of appraisal method**
 - **Implementation of appraisal method**
 - **Making conclusion on the value**
 - **Writing/presentation of the report**

GN 7: Hazardous and Toxic Substances

- **Scope**

- **GN 7 refers to appraisal of property in conditions of its exposure to hazardous and toxic substances**
- **Due to special regulations in some countries, modifications are possible**

- **Ties to the accounting standards: through IVA 1, IAS 36**

- **Entering into effect: April 19, 1996 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 7: Hazardous and Toxic Substances

- **Definitions**

- **Hazardous substances**
- **Toxic substances**
- **Environmental factors**

- **Instructions**

- **Considering impact of presence of hazardous and toxic substances on the value of property**
- **It is necessary to assess own competency**
- **Physical, legal, scientific, and technical aspects**
- **Hiring experts for given area (and citing in the report)**
- **If decrease of value exists, determine value as if removed**
- **Clearly distinguish whether the danger exists or it is expected, and whether it impacts the value of property**

GN 8: Depreciated Replacement Cost (DRC)

- **Scope**

- **GN 8 refers to appraisal of real and personal property, and it is in direct relation to IVS 2 and IVA 1, as well as GN 1-5**

- **DRC represents implementation of the cost approach and surrogate for market value in conditions when market information is limited**

- **Ties to the accounting standards: IAS 16, IAS 36, IPSAS 17**

- **Entering into effect: January 31, 2005 (*)**

(*) Revised in the seventh edition, February 2005.

New title: Cost Approach in Appraisals for the Requirements of Financial Reporting

GN 8: Depreciated Replacement Cost (DRC)

- **Definitions**

- **Depreciated replacement costs**
- **Special property (special purpose)**
- **Improvements of property**
- **Adequate profitability**
- **Service potential**
- **Modern equivalent**
- **Decrease of value**
- **Optimization**

GN 8: Depreciated Replacement Cost (DRC)

● Instruction

- Must differentiate property traded in normal way from special property**
- Value of land to be determined based on principle of market value, with stating set limitations**
- Determine replacement costs, and then determine depreciation**
- Replacement costs can be determined through modern equivalent**
- Three types of depreciation – decrease of value (obsolescence)**
 - Physical**
 - Functional/technological**
 - External (economic)**
- Take into consideration possibility of alternative use**
- Testing the service potential / adequate profitability**
- Report in accordance with IVS 3**

GN 9: Discounted Cash Flow

- **Scope**

- **GN 9 refers to appraisal by DNT method, both for market and “non-market” concepts of value (tied to GN 6)**
- **Special attention given to presumptions (probable, reasonable, and sustainable)**

- **Ties to the accounting standards: IAS 36**

- **Entering into effect: April 30, 2003 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 9: Discounted Cash Flow

- **Definitions**

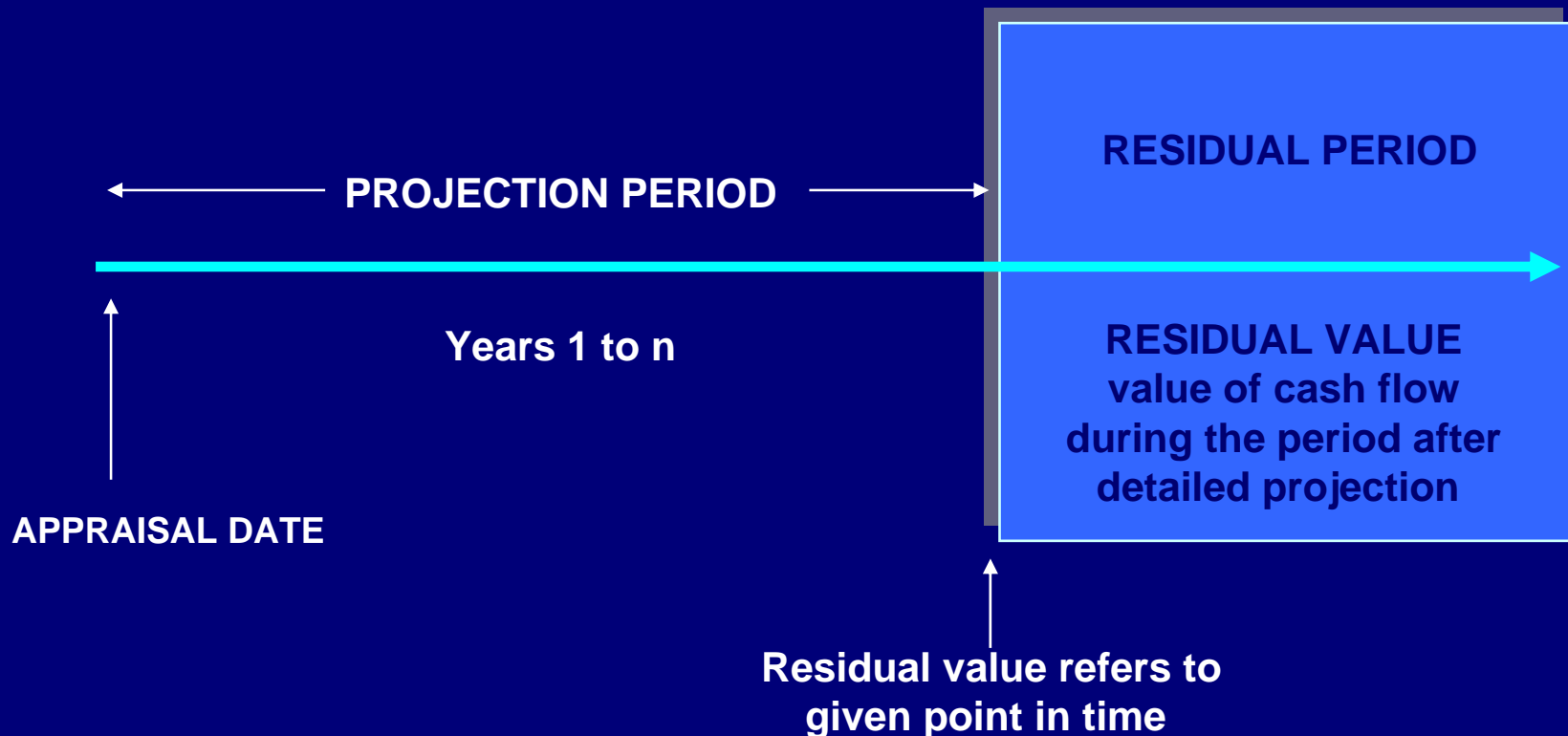
- **Discounted cash flow**
- **Financial modeling**
- **Investment analysis**
- **Discount rate**
- **Internal return rate**
- **Net present value**

GN 9: Discounted Cash Flow

- **Instruction**

- Covered in detail by the last seminar

- To the greatest extent, input should be market data



GN 9: Discounted Cash Flow

→ Procedure

- **Selection of cash flow definition**
- **Analysis and projections of revenues**
- **Analysis and projection of operative costs**
- **Financial and other obligations**
- **Investment in fixed assets**
- **Investment in permanent working capital**
- **Determining and adjusting discount rates**
- **Residual value**
- **Calculating present value**
- **Final corrections**
- **Logical control**

GN 9: Discounted Cash Flow

- **Value of capital = sum of present values of cash flow + present residual value**

Residual growth rate	2.50%						in 000 din.
Discount rate	14.58%						
	I	II	III	IV	V	Residual	
NET CASH FLOW	272,497	255,824	289,236	313,560	128,402	131,612	
Discount factor	0.934	0.815	0.712	0.621	0.542	0.542	
Present value of net income	254,572	208,588	205,826	194,745	69,601	71,341	
Sum of net income	933,332						
Present residual value	590,669	Residual value			=	1,089,682	
Value of invested capital	1,524,001						

GN 10: Appraisal of Agricultural Property

- **Scope**

- **GN 10 refers to appraisal of agricultural property**

- **Attention given to classification of property and specific of agriculture**

- **Ties to the accounting standards: IAS 16, 40, 41**

- **Entering into effect: April 30, 2003 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 10: Appraisal of Agricultural Property

- **Definitions**

- **Agricultural farm**
- **Irrigated land**
- **Several year seedlings**
- **Stock farm**
- **Dairy farm**
- **Forestry**
- **Special purpose property**
- **Integrated entities**
- **Biological agents**

GN 10: Appraisal of Agricultural Property

● Instruction

→ Required specialized skills or experts

→ Classification of agricultural property

- Land**
- Structural improvements**
- Facilities and machines (physically tied to land)**
- Facilities and machines (not physically tied to land)**
- Biological agents (physically tied to land)**
- Biological agents (not physically tied to land)**

→ Within domain of “classical property” use appropriate GN

→ Consider carefully specifics related to agricultural utilization and character

→ Different physical components ought to be appraised separately

→ Within domain of reporting, IVS 3 applies

GN 11: Appraisal Control

- **Scope**

- **GN 11 refers to appraisal control performed by another appraiser**

- **Internal vs. external control**

- **Control procedure and reporting procedure**

- **Ties to the accounting standards: through IVA 1**

- **Entering into effect: April 30, 2003 (*)**

(*) Unless changed in the seventh edition, February 2005.

GN 11: Appraisal Control

- **Definitions**

- **Appraisal control**

- **Administrative control**

- **Technical control**

- **Office control**

- **Field control**

GN 11: Appraisal Control

● Instruction

→ Control steps similar to appraisal steps

- Defining assignment**
- Forming an opinion about completeness of controlled report**
- Forming an opinion about adequacy and relevancy of presented data**
- Forming an opinion about adequacy of selected methods**
- Forming an opinion about quality of analysis, opinions, and conclusions presented in controlled report**

→ Differentiate defining appraisal assignment from control assignment

→ Report similar to appraisal report

→ As with the appraisals, it is not allowed to use information about events that occur after appraisal date

→ Reasons to agree or disagree must be explained in detail

→ In case completely new appraisal is done, it must be in compliance with IVS

Useful Information

STANDARDS, METHODOLOGIES, ARTICLES

www.ivsc.org

www.appraisers.org

www.bvappraisers.org

www.damodaran.com

www.bvresources.com

www.ppcnet.com

DATA

www.eurostat.com (org)

www.valuationresources.com

www.rmahq.org

www.valueline.com

www.ibbotson.com

www.damodaran.com

www.bizcomps.com

www.BVMarketData.com

www.mergerstat.com

milenkovic_nina@yahoo.com

+381 63 254 204

Literature

- Poznanić, Leko, Vlahović: *Procena vrednosti kapitala*, Ekonomski institut Beograd, 1998. +381 11 2688-255
- Copeland, Thomas E., Tim Keller, and Jack Murrin. *Valuation: Measuring and Managing the Value of Companies*. Colorado Springs, CO: John Wiley & Sons, 2000. (800) 825-8763. www.wiley.com.
- Damodaran, Aswath, *Investment valuation: Tools and Techniques for Determining the Value of Any Asset*, 2nd edition. John Wiley & Sons, Inc., 2002. (877) 762-2974. (888) BUS-VALU or www.bvresources.com.
- Fischman et al.: *Guide to Business Valuation*, PPC, 2003. www.ppcnet.com
- Pratt, Shannon R, Robert F. Reilly, and Robert R Schweihs. *Valuing Small Businesses and Professional Practices*, 3rd edition. New York, NY: McGraw-Hill, 1998. (800) 722-4726. (888) BUS-VALU or www.bvresources.com.
- Pratt, Shannon P. *Cost of Capital—Estimation and Applications*, 2nd edition. New York, NY: John Wiley & Sons, 2002. (800) 225-5945. www.wiley.com. (888) BUS-VALU or www.bvresources.com.

Literature Related to Appraisal of Property

- **Richard M. Betts, ASA, and Silas J. Ely. *Basic Real Estate Appraisal* , (2004, 6th edition). www.appraisers.org/pubs**
- **Jeffrey D. Fisher and Robert S. Martin. *Income Property Valuation*, (2004, 2nd edition). CD-ROM included www.appraisers.org/pubs**
- ***Valuing Machinery and Equipment* , American Society of Appraisers (2000) www.appraisers.org/pubs**
- ***The Appraisal of Personal Property (PP Handbook): Principles, Theories, and Practice Methods ...* American Society of Appraisers (1994) www.appraisers.org/pubs**