

EVALUATION OF AN ENTERPRISE - CENTRAL OBJECT FOR ROMANIAN SPECIALISTS FROM VARIOUS FIELDS OF ACTIVITY

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Abstract

An enterprise evaluation is a central object for Romanian specialists from various fields of activity, not only needed in privatization of commercial companies, but also in the process of transition to market economy. Thus, the problem of knowing the most accurate value a company is placed when a securities issue takes place, a sale of assets or when the reorganization process is triggered legal liquidation of an enterprise; in these situations it is necessary to establish the value of the firm not only in terms of the value of fixed assets and but also depending on the future capacity of the enterprise to generate profit.

The case study refers to the evaluation of the Gorj Hotel in Targu Jiu, where the financial situations were relevant and underpinned by the correct evaluation of the SC Gorjul SA patrimony.

Keywords: *enterprise evaluation, financial statements, value a company, market economy.*

Classification JEL: *M21, O23*

Introduction

In our country the transition to the market economy and prospects privatization have brought to the fore front the concerns of economic agents and the problem of determining the value of enterprises. An enterprise does not mean just the figures on the balance sheet, but much more, because it means a brand, a position within an economic branch and the market, means the experience and professionalism of its people, elements that can not be expressed in figures, but which are parts of the value of the enterprise. Also an enterprise must be assessed in the light of its ability to produce a sustainable future profit.

In the process of assessing the business, it is also necessary to consider The purpose [1] where the estimate is made, the person requesting it (the seller, buyer, third person) as well as other items able to determine the option for a particular valuation method [1].

The difficulty is to choose the method or combination of methods that is best suited to the purpose of the assessment. In theory business valuation uses a series of specific notions for designation of value

Introduction and knowledge of evolved value-setting methods can not be ignored, for at least the following reasons: at the enterprise level, valuing and comparing value substantial and the return value would lead to appreciation, even approximate, the level of goodwill and its weight in value total, giving a first picture of the company's diagnosis.

At the level of the branch or field of activity, by the existence the same reference system, could be made on the basis of these procedures analysis and comparison of several economic units with similar profit (in the conditions of preservation of the proportions of size and the recognition of the differences of technical endowment) to highlight those businesses with high yield and a good level of goodwill that could enter into economic cooperation relations with foreign partners.

In this context in the case the Romanian economy, a high goodwill, an expression of global exploitation efficient enterprise, the efforts made to create an image, and the imposition of a manufacturing or marketing mark may be an argument stronger for initiating cooperative actions

than endowment relatively good technique. Though perishable in time, goodwill is in fund, for the foreign partner, a guarantee of taking over or preserving a market prosperous outlets.

An enterprise evaluation is a central object for romanian specialists from various fields of activity

The complexity and difficulty of the evaluation process of a businesses affect the possibility of determining a real, rigorous value and indisputable. Such a value can be obtained to a certain extent, taking into account and combining several basic estimates: value substantial value, return value, mathematical accounting value, stock exchange value, insurance value, venal value, value liquidation, potential (dynamic) value, global economic value a enterprise, because "business valuation is intended the stability of an objective value that represents a normative negotiation price between partners animated only for financial reasons" [4]. The set value is a conventional quality of an object determined as a result of calculations and expertise.

Establishing value requires objectivity, independence and the use of a a set of calculation methods that use the following related elements value [6]:

- The substantial value denotes the total value a of goods, without regard to their nature, their way of financing and their legal status, participating in the current activity of a enterprises, ie the value of the production apparatus. The value therefore, corresponds to the assessment of the mass of goods of which disposes of its enterprise or its assets.

- The return value is given by the capitalized benefit of company. According to the presentation made in "Dictionnaire de financial manager", Dunod, 1979, yield value expresses the amount of financial capital that is placed or invested in a certain level of interest would produce an equivalent income the past, past or foreseeable profit of the enterprise considered.

- Accounting mathematical value is the difference between all material and financial assets owned the enterprise and all its debts.

- The market value as a result of the product between the benefit per Action (BPA) and Stock Market Capitalization (PER), multiplied by the number of shares issued, or otherwise it is given the product between the share exchange rate of an action and the number of the shares issued by the enterprise.

- The reconstitution value expresses the totality of the capital must be invested, in order to create, under normal conditions, a enterprises identical to the one considered.

- The insurance value is obtained by correcting the value of reconstitution with a wear coefficient.

- The venous value represents the average price probably what can be obtained by selling an enterprise in business, in its state current.

- The liquidation value is given by the sum of the values obtained by the forced sale, separately, of the various goods constituting the patrimony of the enterprise.

- The potential (dynamic) value takes into account those costs financial, such as those for research, new release products, staff training as well as those items which is related to the quality of the organization of the enterprise, to the value his people, etc., all able to ensure the opening towards future of the enterprise.

It is not necessary to estimate all these values in the process evaluation of an enterprise because some of these values have a precise destination - such as the amount of insurance that is then determined when it comes to the insurance of the enterprise, or the liquidation value, which is calculated when the issue of forced sale is a without taking account of the normal use of the goods that are liquidated [9].

Others have an informative-predictive character, such as value potential (dynamic), showing what the company's prospects are: in the case an expansion trend, the value resulting from the calculations will be considered a minimum, and if the trend is regression, the value will be considered the maximum.

Of these values, two are considered to be absolutely necessary any evaluation process, namely: the substantial value and the value of yield. Given that there are many ways of choice in practice an evaluation method specific to an enterprise or its assets, it is necessary for managers to know what choice they have and which are the determining factors in determining the method that best fits cases in the businesses they manage.

Choosing an evaluation method is a multicriteria problem for [3]:

a) Each enterprise is a particular case to which the rules of general order can not be applied without discernment;

b) the particular situation of each enterprise determines the assessment in specific conditions.

Therefore, the weight given to each factor in the evaluation process will depend necessarily by the specific circumstances in each case, by nature enterprise, its profitability and prospects for the future. Factors underlying the choice of evaluation methods, motivation and their acceptance by the beneficiaries of the evaluation can be centralized as follows [5]:

a) the nature of the enterprise and its history;

b) the general and the particular economic environment;

c) the mathematical value of the assets and the financial statement;

d) profitability of the enterprise;

e) potential profitability;

f) the existence or not of goodwill;

g) the sale of shares and the size of the capital in shares;

(h) the market value of the company 's shares compared to similar undertakings whose assets are traded on a market free and open, whether listed or not.

Several methods are chosen for evaluating an enterprise, if only for the sake of verifying in some way the closeness between the resulting values. In the generally, methods are different soup as the enterprise is high profitability or not, is listed or not, is part of the branch directly productive or tertiary, etc.

There is no assessment method yet to meet all the requirements market operators, but the use of several methods and those that correspond to the intended purpose and the nature of the enterprise allow it sufficiently objective assessment of the enterprise. For this is necessary regardless of whether the valuation report is for the seller buyer, methods for the same enterprise must be identical, and assessments should be for any part of the negotiation a loyal and sincere information.

We will continue to approach the method of accounting net activity at SC Gorjul SA, a company that owns a hotel considered the largest hotel in Targu Jiu.

Net book value is the simplest method of valuation: this method allows quick calculation of net patrimony without calling for services an evaluation firm. At the same time, the Net Asset Accounting method has a number of drawbacks, such as [6]:

- The existence of inconsistencies between the accounting data and the actual situation, which will affect the net asset value of the accounting;

- Values are expressed in the cost of the base period, without being updated and without taking into account the evolution of replacement prices;

- Applying tax rules on depreciation, reserves, provisions lead to accounting records that distort the situation real;

- The value obtained by this method is inconsistent with the theory utility, according to which the price of an economic good is depending on the satisfaction felt by the buyer and true satisfaction results of the net future revenue (net profit, dividends, net cash flow).

For determining the Net Asset Accounting (ANC), it is used the latest balance sheet, based on which it is calculated:

$$ANC = TA - DT - ANV,$$

where:

TA = total active;

DT = total debts;

ANV = "non-values"

"Non-values" are considered as those that can not be independently marketed, namely:

- formation expenses (account 201);
- prepaid expenses (account 471);
- spending over multiple periods;
- conversion-to-action differences (Account 476).

DT (Total Debt) includes risk provisions and expenses in the following situations:

1. provisions for expenses where:

- the likelihood of their use is high;
- the expenditure it covers is recorded in the course of the year financial;
- have a precise purpose and value.

2. provisions for risks if they are intended to cover some unavoidable risks for the business done by the enterprise. Another Correction required for NCA calculation is the deduction of the income tax profit realized by the gradual introduction of the expenditure of the exercises future financial-accounting of "non-values" and provisions regulated previously.

Example: Data is given in the following table.

Evaluation of the Gorj Hotel in Targu Jiu, where the financial situations were relevant and underpinned by the correct evaluation of the SC Gorjul SA patrimony

RON

ACTIVE		PASSIVE	
Intangible assets	700	Subscribed share capital	8000
Fixed assets	5600	Regulated provisions	2000
Financial Assets	2500	Profit	2500
Stocks	7000	Provisions for risks and expenses	1000
Receivables	4500	Providers	5500
Expenditures registered in advance	500	Financial Liabilities	1500
Available	1200	Tax Amounts	1500
TOTAL ACTIV	22000	TOTAL PASSIVE	22000

Source: Data extracted from the financial statements of SC Gorjul SA

$$ANC = TA - DT - ANV,$$

where:

ANV = prepaid expenses = 500 RON

DT = provisions for risks and expenses + suppliers + debts

financial + tax liabilities = 1000 + 5500 + 1500 + 1500 = 9500 RON;

$$ANC = (22,000 - 9500 - 500) \text{ RON}$$

$$ANC = 12000 \text{ RON}$$

Profit tax = 16% PB, where PB = gross profit.

The regulated provisions have not been taxed what leads to the following corrections:

$$DT' = 9500 + 2000 \cdot 0.16 = 9820$$

provisions regulated untaxed

where:

DT' = total corrected debt

$$ANV' (\text{prepaid expenses}) = 500 (1 - 0.16) = 420 \text{ RON, where:}$$

(ANV' = assets considered "corrected non-values")

So,

$$\text{ANC} = \text{TA-DT}' - \text{ANV}'$$
$$\text{ANC} = 22000 - 9820 - 420 = 11.760 \text{ RON}$$

Conclusions:

In the process of assessing the business, it is also necessary to consider “the purpose” [7] where the estimate is made, the person requesting it (the seller, buyer, third person) as well as other items able to determine the option for a particular valuation method [8].

The difficulty is to choose the method or combination of methods that is best suited to the purpose of the assessment. In theory business valuation uses a series of specific notions for designation of value.

Introduction and knowledge of evolved value-setting methods can not be ignored, for at least the following reasons [3]:

1. At the enterprise level, valuing and comparing value substantial and the return value would lead to appreciation, even approximate, the level of goodwill and its weight in value total, giving a first picture of the company's diagnosis.

2. At the level of the branch or field of activity, by the existence the same reference system, could be made on the basis of these procedures analysis and comparison of several economic units with similar profit (in the conditions of preservation of the proportions of size and the recognition of the differences of technical endowment) to highlight those businesses with high yield and a good level of goodwill that could enter into economic cooperation relations with foreign partners. In this context in the case the Romanian economy, a high goodwill, an expression of global exploitation efficient enterprise, the efforts made to create an image, and the imposition of a manufacturing or marketing mark may be an argument stronger for initiating cooperative actions than endowment relatively good technique. Though perishable in time, goodwill is, for the foreign partner, a guarantee of taking over or keeping a market prosperous outlets.

3. In international practice the assessment of enterprises for the purpose their sale, insurance, mergers, etc., is achieved through some specialized and experienced expertise offices in this field [2]. May as potential foreign partners that intend to set up joint ventures with the Romanian enterprises to request for this purpose the evaluation through offices of Western expertise.

4. The transition to the market economy will be introduced into the economy Romanian elements of the competition and freedom mechanism initiatives, including listing stock, selling or merging business, liquidation or bankruptcy, etc. Knowledge and the use of the methodology for calculating the value of the enterprise is required, therefore necessity.

The valuation expert also has the role of setting a price for the enterprise, but how this is not a good thing and how its pricing differs from other goods. The value of the enterprise is an anticipation of earnings selling it immediately or buying it for future exploitation. The two estimates of the seller and the buyer are not necessarily equals. These are determined by the information they have, by their risk behavior, their predictability each [5].

Through the game of antagonistic interests between the seller and the buyer, there is one the minimum seller 's price and a maximum price of buyer. The possible price will be between these limits as a result of the process of negotiating the patrimonial and financial elements. The price, like mutually accepted value is based on a compromise between opinions subjective value of the parties, the objective value of the expert constituting pre-negotiation basis for the agreement. Such an objective value coincides with the price when accepted by both parties. Role the valuation expert therefore consists of recognizing the price on which the seller and the presumptive buyer could ask for or obtain.

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