

METHODOLOGICAL DELIMITATIONS FOR INFORMATION QUALITY PROVIDED BY PATRIMONIAL EVALUATION

DANIEL GOAGĂRĂ, LAURA GIURCA VASILESCU *

ABSTRACT: *The evaluation methods for an entity are multiple (patrimonial methods, income based methods, direct comparison methods) and the evaluators have to establish exactly which one of these are the most appropriate for the analyzed entity, as well as for the assets which are going to be evaluated, in a specific economic context. The selection of a certain type of approach or method depends on different aspects, such as: the type of entity, the situation at the evaluation period, the available information, the purpose of evaluation, etc. The evaluation standards recommend that the evaluators should use at least two from the three approaches: asset based approach; income based approach; comparison based approach. Each type of approach has several evaluation methods and techniques and between them there is a continuous inter-conditioning.*

KEY WORDS: *evaluation methods, patrimonial evaluation, evaluation standards, relevant information, performance*

1. INTRODUCTION

The evaluation process supposes the credible estimation of the value for an asset or the entity, based on the analysis of all available information.

The economic evaluation, in the meaning of the evaluation doctrine and implicitly, of the national and International Evaluation Standards, is a complex process of estimation for a certain type of value, usually the „market value“.

For the estimation of the entity value, the evaluator can use three approaches, as follows:

- asset based approach;
- income based approach;
- comparison based approach.

Each type of approach include several evaluation methods and techniques and

* Lecturer, Ph.D., University of Craiova, Romania, daniel_goagara@yahoo.com
Assoc.Prof., Ph.D., University of Craiova, Romania, laurra2004@yahoo.com

in practice, there can be used all three approaches in order to estimate the value of an entity.

The selection of an approach or method depend on the type of entity, of its situation at the time of evaluation, of the available information, the purpose of evaluation etc. But the evaluation standards recommend that the evaluators should use at least two approaches when they evaluate an asset or an entity.

2. METHODOLOGICAL ALTERNATIVES OFFERED BY THE PATRIMONIAL EVALUATION, USED IN ROMANIA

In Romania, for each evaluation of the entities, can be used at least two of the following methods:

- Net Present Value method;
- Discounted Cash Flow method;
- Market Comparison method;
- Income Capitalization method.

Among the evaluation methods used in Romania, the most representative are the followings: patrimonial methods, income based methods, direct comparison methods.

The patrimonial methods are the followings:

- Net Accounting asset (ANC);
- Net Corrected Accounting Asset (ANCC);
- Net Liquidation Asset (ANL);
- the substantial value;
- the permanent capital necessary for exploitation.

The income based methods are:

- Income capitalization methods;
- Discounted Cash Flow methods;
- Dividend evaluation methods, where are included:
 - Irving Fisher method;
 - Gordon-Shapiro method ;
 - Evaluation methods for developing entities, such as: PER; Bates model; Hoit model.

The direct comparison methods are the followings:

- the comparison with the similar quoted entities method;
- the comparison with sales of similar unquoted entities method;
- the comparison with previous transactions or offers of transactions with participations at the capital of evaluated entity.

These evaluation methods are known and promoted at the international level through the International Evaluation Standards (IVS) and European Evaluation Standards (EVS).

In Romania, the professional evaluation registered a qualitative leap after the period 1990-1991, since the elaboration and implementation of the reforms for transition to the market economy. In these circumstances, the evaluator can have, in relation to the beneficiary of the evaluation, several qualities, such as:

- *consultant*, in the conditions he is during a evaluation process or ended it;
- *referee*, in the conditions the evaluator is hired by all the participants in a transaction, mediating the ongoing evaluation process;
- *neutral expert*, when the evaluator is hired by a public institution.

The option for a method or another is the choice of the evaluator, which select the used methods in function of the specific conditions where the evaluation is done and the advantages/ disadvantages of the methods in these circumstances.

3. DELIMITATION OF STAGES AND PHASES FOR EVALUATION PROCES

The presentation of the stages and phases of the evaluation process, underline the existence of a continuous interconnection between them, especially if there is taken into consideration the fact that the essential objective is not just to establish a simple value for the entity, but also the identification of the modalities such a value can be got in conditions of maxim efficiency.

Each stage includes more phases. There is an initial stage, which is distinguished by the dominant of a purely cognitive stage, in which the knowing of the specific of the analyzed entity represents the central objective, including as well in the analysis other phases, such as:

- *initial knowledge*, moment when is achieved the initiation on the informational side regarding the specific of the analyzed entity, getting in the same time the necessary documents for the evaluation activity, made available by the decision makers of the entity;
- *organization of the evaluation process*, which suppose the establishing of the planned terms for the evaluation approach, including also the data checking and the useful information for the evaluation activity.

The major role of this stage consist on the fact that it permits to know some aspects that can constitutes the „turning points” during the evaluation activity, such as: access and transportation means (highways, railways); industrial locations, production flows (machinery layout, unused places, possibility to do other activities); working conditions.

Regarding the informational area for the evaluation activity in terms of need for obtained information, this include more categories of information, such as: juridical information, specific information, information regarding owned assets, commercial information, social, technical, organizational, forecasting and accounting information (table 1).

The second stage supposes the aspects that are related to the manner the evaluation process will be put into practice, including the followings phases:

a) General diagnosis of the entity, when are identified the "strong" points, that maintain the entity in the competitive environment, as well as "weak" points, that can lead to its bankruptcy. For getting this, there are necessary more working proceedings, as follows:

- visit and inspection at the side;
- study of the financial-accounting and juridical documents, as well as the verification of the correctness and the correlations with other documents;

- fill up the diagnosis questionnaire and the working files;
- interview with the decision factors which have the activity in the functional compartments;
- analysis of the organizational structure and the informational circuit in order to know the tasks of each responsible;
- fill up for each diagnostic of a synthetic record where are included the strong and weak points.

Table 1. Informational area of the evaluation process

<ul style="list-style-type: none"> • juridical information 	✓ concerns the existence or not of the property rights and/or the right of use on the patrimonial elements;
<ul style="list-style-type: none"> • specific information 	✓ regard the characteristic elements, the specific and history of the analyzed entity for evaluation;
<ul style="list-style-type: none"> • information regarding owned assets 	✓ regard the yield the use right on the patrimonial assets through the commercial leasing or renting, as well as eventual situations that generate rights related to the intellectual property (inventions, trade marks);
<ul style="list-style-type: none"> • commercial information 	✓ reflect the commercial aspects, can include in the interest area the products and their weight in the base activity but also the position of the entity on the market, the competition, the distribution network;
<ul style="list-style-type: none"> • social information 	✓ offer information related to the human resources, its structure and skills, efficiency of the staff, as well as the possible factors that can influence this efficiency;
<ul style="list-style-type: none"> • technical information 	✓ give information regarding the conditions and specific of the activity, including the relevant aspects such as the ones related to the production capacity, research and development or the rhythm of the production and sales;
<ul style="list-style-type: none"> • organizational information 	✓ are information related to the organizational structure of the entity resulted from the regulation of organization and functioning, geographical position of the organizational components;
<ul style="list-style-type: none"> • forecasting information 	✓ are underlined the technical, economic and commercial perspectives resulted from the forecasting of activity forecasting, investment, financing and profitability;
<ul style="list-style-type: none"> • accounting information 	✓ permit to know the results from the balance sheet, the profit and loss account, the annexes of the balance sheet as well as the analytic accounts of exploitation.

b) Evaluation, which consist in application of a set of evaluation methods that permit to get a real value of the entity.

The third stage appears at the end of the evaluation activity and includes:

- elaboration of the evaluation report, specifying and justifying the evaluation

- methods used and the values resulted, as well as the opinion of the evaluation;
- preparing documentation for presenting the entity, which contains the necessary information for each investor.

The evaluation techniques and procedures recognized worldwide are used by specialists, in the conditions of the international transactions, the transparency of the financial situations, but also the credibility, put their mark on them significantly (fig. 1).

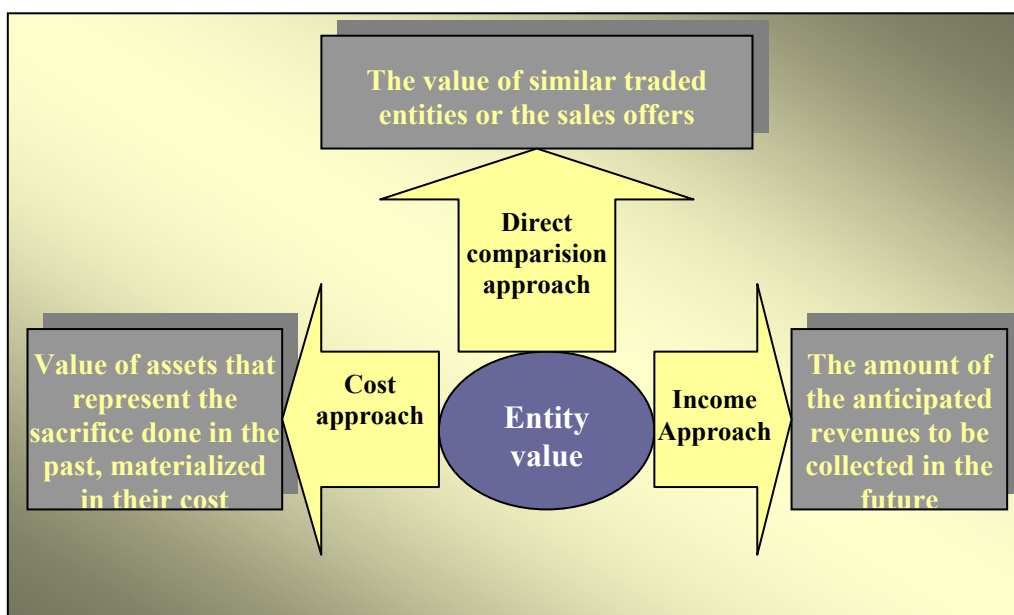


Figure 1. Evaluation approaches - based on market

4. CONCLUSIONS

For estimation of the entity's value, the International Evaluation Standards recommends the using of at least two of three types of approaches: asset based approach; income based approach; comparison based approach. The obligation incumbent on the evaluator is to apply one or more evaluation methods in order to estimate any type of value, from the market or outside the market. Choosing and using the appropriate evaluation method depends also on the experience and competence of the evaluator, on the national standards, on requests of the market or the person who order the evaluation as well the available information and the purpose of evaluation.

In conclusion, determination of the value for an entity presents a high level of difficulty due to the multitude of factors which influence it and the large number of forms that it takes. Also, the value of an entity should not be traced statically because it changes very quickly under the market influence and the economic-financial results they obtain. Ensuring a dynamic character is possible by correlating the value of the entity with the economic-financial performances of this.

REFERENCES:

- [1]. **Antonescu, L.** - *The competences and the impact of evaluation categories on the fidelity of accounting*, Analele Universitatii din Oradea, vol.3, 2008, pp.917-922
- [2]. **Bircea, I.** - *Evaluarea întreprinderii*, Editura Dacia, 2005
- [3]. **Buglea, A.; Eros-Stark, L.** - *Evaluarea întreprinderii. Teorie și studiu de caz*, Editura Marineasa, Timișoara, 2001
- [4]. **Dumitrescu, D.; Dragotă, V.; Ciobanu, A.** - *Evaluarea întreprinderilor*, Ediția a II-a, Editura Economică, București, 2002
- [5]. **Ișfănescu, A.; Robu, V.; Anghel, I.** - *Evaluarea întreprinderii*, Editura Tribuna Economică, București, 2001
- [6]. **Siminică, M.** - *Diagnosticul financiar al firmei*, Editura Universitaria, Craiova, 2008
- [7]. **Sichigea, N.; Giurca Vasilescu, L.** - *Gestiunea financiară a întreprinderii*, Editura Universitaria, Craiova, 2008
- [8]. **Stan, S.; Anghel, I.** - *Evaluarea entității*, Ediția a III-a, Editura IROVAL și INVEL MULTIMEDIA, București, 2007
- [9]. **Vintilă, G.** - *Diagnosticul financiar și evaluarea întreprinderilor*, Ed. Didactică și Pedagogică, București, 1998
- [10]. *** - ANEVAR, *Culegere de standarde*, Editura Mexim Grafic, 2001