

THE VALUATION OF FIXED ASSETS OF A COMPANY

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INTRODUCTION

The valuation of fixed assets of a company is a subject about which a book could be written, so any attempt to reduce it to a short article must necessarily omit many important points. It is also a subject which has inexplicably been neglected by the Government, in respect of legislation to lay down minimum academic requirements, and responsibilities, of those who seek to undertake this work. At this time anyone may value anything - and they do.

FIXED ASSETS

There are three very distinct categories of fixed assets in industry - land, building, and plant. None of these have any relationship with each other as far as value is concerned, and each requires a totally different personal academic knowledge, experience and approach to carry out a valuation correctly.

TYPES OF VALUATION

There are three main different types of value - reinstatement or replacement, going concern, and "book" value. The reinstatement value is the present cost of the item plus every cost associated with its complete planning and installation for efficient operation. This cost must be calculated not only for its own use such as to obtain a figure for reinstatement insurance, but also it must be calculated to obtain a going concern value.

The going concern value is the reinstatement value discounted in accordance with many factors such as age, obsolescence, wear and tear, suitability for the job, comparative production speeds, effectiveness of competition, the market for the product, and so on.

The "book" value is not a value at all but it is the figure most frequently and erroneously used to indicate the worth of an item. It is the initial cost depreciated at a yearly fixed rate for tax or other purposes. It is a clerical function having no relation to the true worth, or going concern value of the item, and should properly be referred to as "depreciated cost".

INDUSTRIAL VALUATION

Industrial valuation is not a type of valuation, but an area where various types may be carried out. Other areas, completely dissimilar, are real estate, rural, art, jewelery, probate, etc., each requiring a specialised knowledge.

An upgraded "Associate Diploma Course in Valuation" will shortly commence at the Technical College, Ultimo. This is for Real Estate Valuers only, and will not apply to industrial valuation, as an area, as made evident below. Even the tuition in valuing buildings falls

far below the requirement for the valuation of large multi-storey buildings.

Similarly, that course would not apply to rural, art, jewelery etc.

INDUSTRIAL LAND

In new areas being opened up the value of industrial land is mostly a matter of supply and demand and is very adequately handled by Real Estate Valuers etc., and this may continue satisfactorily.

However there are certain situations where the normal land valuers are quite inadequate to calculate a true worth to a particular industry. Land which is useless and has no value for one industry may be priceless to another.

Matters which affect the value or worth of a block of land to a particular industry are firstly zoning and proximity to services. Then comes a number of other facilities, the value of which, or their "worth" to the project, is far beyond the capabilities of a real estate valuer to calculate or assess.

Because of adjacent engineering facilities such as wharves, roads, rail, air fields, pipe lines, mineral deposits, coal, oil tanks, dams and water supply, communications, etc., etc., a block of land may have an extremely high value for one enterprise, and be useless for another. An engineer must be able to calculate in dollars what these nearby facilities save the project, or what their absence costs the project, and this relates to the value of the land for its intended use.

This is one aspect of land valuing where a well qualified engineer alone can give a true answer.

INDUSTRIAL BUILDINGS

As with land, there are certain aspects of building valuation where the knowledge of an architect or civil engineer is required.

The forthcoming Technical College course will ensure that the worth of cottages and simple constructions can be competently estimated by those qualifying at the course. But as the complexity, size and height of the building grows, so does the academic knowledge necessary to calculate its worth, increase.

Generally, the value of large multi-storey buildings for commercial use, is now estimated on a financial return basis. This may be very satisfactory from an investment point of view, but it would be disastrous from an insurance replacement point of view. It would also be most unsatisfactory from a structural strength point of view where overloading could lead to collapse. This has happened too often, and a valuer must be qualified to say that under the conditions of the envisaged project the building is of little or no value, and how much in dollars.

Where the actual replacement cost of large buildings is involved, and such matters as the structural strength of the steel frame, bricks, concrete, prestressing, foundations, earth works, etc., are involved in obtaining the true value, we are entering the realm of competency of architects and chartered engineers, or the equivalent.

INDUSTRIAL PLANT

With few exceptions, the valuation of industrial plant, if it is to be better than an uninformed guess, particularly where going concern value is concerned, requires the knowledge of a chartered Engineer.

The bulk of factory installations comprise mechanical constructions which are designed and built to suit the economical production of a particular type of product.

This type of plant is generally a one-off job, and the valuer must understand clearly the reason for the design and even be able to find fault with it. In addition to mechanical engineering he must have good knowledge of:-

- Metallurgy - To ensure that the right metals have been used to withstand stress, wear, heat, corrosion, etc.
- Physics - Because this covers the correct use of heat, light, sound mechanics, etc.
- Chemistry - For correct choice of materials and elimination of factors leading to death risk, corrosion, etc.
- Laws - To ensure compliance with Regulations and Standards involved.

The application of all the above factors has a very considerable bearing on the true worth of plant.

For perfection a wealth of knowledge of all the above is required.

Even piping installations have become a specialists job where very considerable academic knowledge and experience have become essential to estimate a true installation cost.

Where purchased items of plant are concerned, such as machine tools - (lathes, grinders, borers, presses, mills, etc), boilers and associated ancillaries, refrigeration plant, specialised plant such as textile, printing, food production, etc, etc., ad infinitum are concerned, a technically qualified valuer is necessary at least.

Electrical installations comprise from lighting, power outlets, connections to machines, wiring and simple cabling at the bottom end, to complex high voltage installations at the top end.

To value properly means that all that is involved must be understood. This field has become so vast that there are many branches which occupy specialists a lifetime. Laws and standards are involved, for safety as well as technical reasons.

The industrial valuer may become involved in specialist areas such as aeronautical, mining, communications, electronic, marine, hydraulic, and so on. It takes little imagination to realise that the employment of the inadequately trained and experienced person could lead to financial loss and other disaster.

We have undertaken deep investigation into the realm of valuation of industrial plant and all that is involved, and the main finding has been that at least this work requires the supervision of a broadly experienced chartered engineer.

If engineering specialists could be employed more accurate results would be achieved, but this often bears unacceptable costs to most firms. If poorly qualified or unqualified persons are employed for this work the principal will get what he pays for.