ROLE OF THE ACCOUNTING INFORMATION IN THE COMPANY ASSESSMENT PROCESS

BĂNUŢĂ MARIANA[1]
[1] ***University of Pitesti, Pitesti, Romania, e-mail: mari.banuta@yahoo.com***

Abstract: *The need to valuate the company emerges in various moments (the purchase and sale of a company or of part of its stock, reorganization by merger, division, the owners' wish to know the current value of their investment, etc.). The information basis of the valuation of a company comprises both the accounting data and additional information from the market (or from the external environment). The value of the company is continuously under the influence of external factors (turnovers, income or loss, asset value, debt value, etc.) and of external factors (the economic situation at global and national level, growth at the level of business branch in which the valuated company operates, loan and deposit interest rates, etc.). The article aims at presenting all the above/mentioned aspects, emphasizing the method of collecting, processing and using accounting information in the process of determining the value of a company.*

Key words*: valuation, company, valuation approach, accounting, International Valuation Standards (IVS), International Financial Reporting Standards (IFRS)*

INTRODUCTION

As shown in the specialized literature and as proved in practice, in a world subjected to the laws of the market, where everything is bought and sold at a very rapid pace, company valuation constitutes a frequent action in the contemporary economic life (Toma, M., 2011). The need to evaluate the company emerges in various moments (the sale and purchase of a company, or of part of its bonds, the reorganization by merger or division, owners' wish to know the real value of their investment, etc.). Company valuation is a complex process, performed by specialists with specific professional training, involving, in many cases, the use of specialists from other fields. The information basis of the company is formed by both accounting data as well as other additional information in the market (or in the external environment). The value of the company is continuously influenced by internal as well as external factors.

MATERIALS AND METHODS

As known, the objective of any type of research, including in the valuation and accounting fields, is the systematic investigation of a problem by using professional reasoning in all the phases of the investigation. In this article, the research is theoretic (pure) and aims at investigating the role of the accounting information in the company valuation process, including the entities in the agricultural field. A theoretical research is expected to create new knowledge about a very well delimited topic. In our case, I will issue opinions related to the need for, and relevance of the accounting information in the case of the application of various company valuation methods. I believe that my recommendations will lead to the improvement of the information system in the company valuation system, subsequently substantiated by real and credible values of the entities subject to the valuation.

Research methods in accounting information systems can be classified according to various criteria, but the most important criterion is the distinction between quality and quantity research methods. The presented article is based on quality research methods, and the data sources used: the observation of phenomena, documents and texts, researcher's (author's) impressions and reactions.

RESEARCH RESULTS

Company valuations or valuations of the assets of the company are **necessary** due to a variety of reasons. Basically, we can say that the company valuation is required for **trading purposes** or for **information purposes** (Anghel, I., 2010):

- ❖ ***Trading purposes***: the sale or purchase of properties, mergers, divisions and/or property exchanges, capital increase, dissolution, reorganization or liquidation of the company, listing on the stock exchange, fair compensation on case of expropriation, cases of proven deception of the buyer, assessment for damages by the deterioration of the property;
- ❖ ***Information purposes***: the valuation with the purpose of guaranteeing loans, taxation of property, insurance of property belonging to companies and insurance of the operational activity, recording the value of the assets in the financial statements, informing the shareholders or the management, setting the annuities or royalties and scheduling them in time.

The area of the **users** of the results of a valuation mission is broad, as these users' interests are different, which is why the potential valuation methods are agreed by the beneficiary depending on his interests. The users interested in determining the value of a company are presented in the following figure:

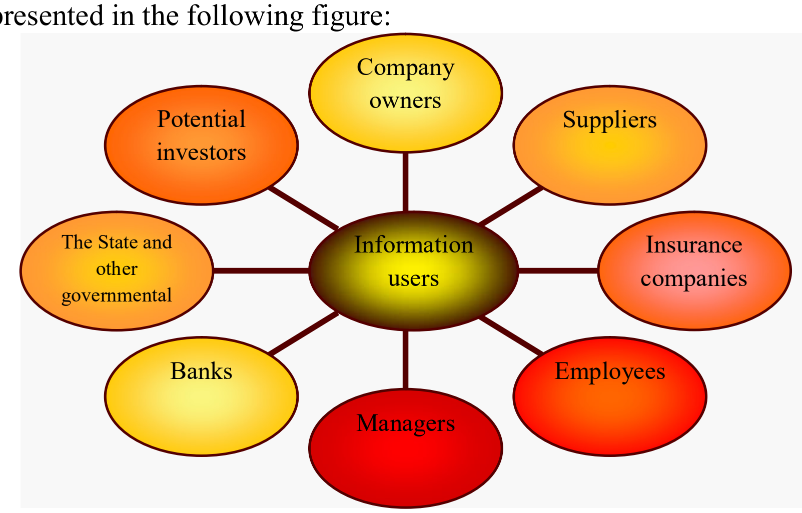

Figure no.1 Company value information users

As we know, **the valuation mission can be performed** only by authorised valuers. The competent authority, which organizes, coordinates and coordinates the authorised valuer activity in Romania and represents the interests of the authorised valuer profession, both at national and at international level, is Asociatia Natională a Evaluatorilor Autorizati din România (National Association of Authorised Romanian Valuers) – a non-profit legal entity, of public interest. This association was created in Romania, in 1992, under the name of Asociatia Natională a Evaluatorilor din România (National Association of Authorised Romanian Valuers - ANEVAR), as a result of the need to determine the value of certain assets, debts or companies as a whole, but also due to the development of the valuator profession. The purpose of the association is the professional training of Romanian valuators, the preparation and presentation of the valuation methods, and also the increase in the credibility of valuation reports related to the value assigned to the valuated subject and filled in the valuation report.

The valuation mission is based on the compliance with, and application by the valuator, in addition to the principles and provisions of the code of professional ethics, of the provisions of the international valuation standards, starting with 2004. The International

Valuation standards (IVS) issued by IVSC [1], and reviewed on a regular basis, aim at setting principles and procedures related to the valuation mission field, the implementation of the valuation and its reporting, thus harmonising the general valuation rules. ANEVAR develops national valuation standards (under the name of SEV) and methodological valuation guides (under the name of GEV) which include recommendations concerning the professional practice and ethics cumulated so far in Romania, in valuation, and take into account the provision of their compatibility with the European standards -EVS, and the international ones, IVS.

The valuation process is a systematic procedure used to credibly assess a certain value of the company (Anghel, I.,2010). The valuation process starts with the identification by the valuator of the company to be valuated and of the valuation basis, and ends when the conclusions are reported to the client.

The valuator will assess the value of the company by specific methods and techniques, which reflect three distinctive approaches in the company valuation: the market-based approach, the income-based approach, and the asset-based approach. In principle, a valuator can use, in a valuation report, all **three approaches** in all company value assessments. The use of the methods included in these approaches depends on the type of company, its situation on the valuation day, the quality and quantity of the available information, the purpose of the valuation, etc.. It is believed that, in order to verify the veracity of the indication concerning the value resulted from the application of the relevant approach/method, the valuator is required to apply other valuation methods as well, which are less relevant (Stan, S., coord., 2013).

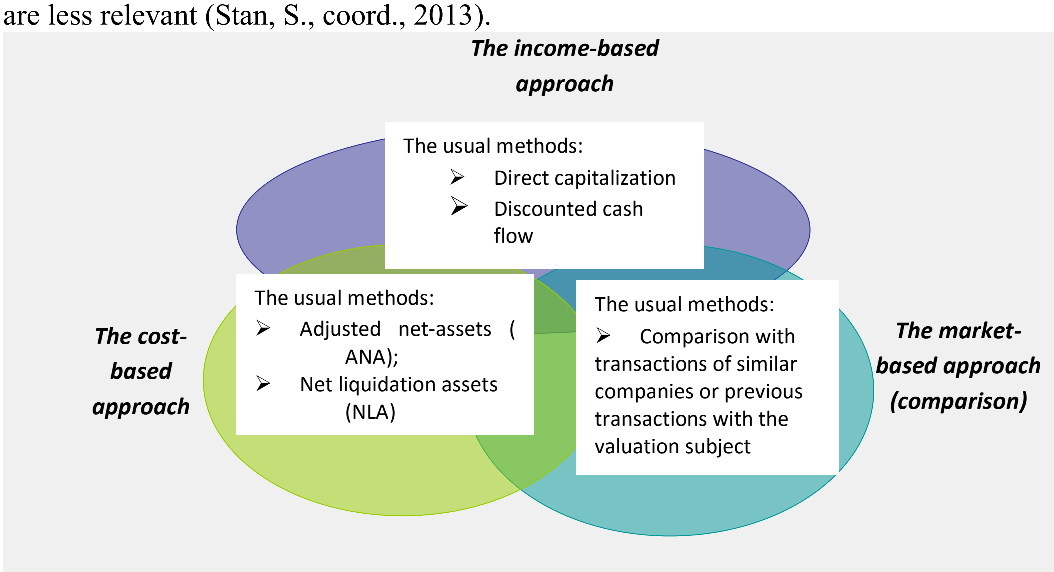

Figure no. 2 Approaches used for valuation

I will present below my opinion concerning the role of the accounting information in the company valuation process:

[1] IVSC coordinates the activity of International Valution Standards Board (IVSB), which develops international valuation standards and which, together with the IVSC council, sets valuation methods and techniques specific to various types of assets and liabilities.

❖ First of all, based on the accounting data, the asset items of the company are identified (assets, debts and equity – forming the property of the entity, its rights and obligations);

❖ Before performing the actual valuation of the company, the valuator is required to complete a diagnosis of that company. The company diagnosis aims at assessing the current status of the analysed company (strengths, weaknesses, opportunities and risks), and analysing the sensitivity of the company under the impact of the internal and external factors. The diagnosis supplies the information required to assess the past and present situation, which is a basis for the assessment of the key elements and variables to be considered for the application of the various valuation methods. The company diagnosis is focused on several aspects, for example a full diagnosis will include: the legal diagnosis, the commercial diagnosis, the technical and operational diagnosis, the financial diagnosis, the human resources diagnoses. Financial and accounting data are used for most indicators calculated on the diagnosis stage (financial, commercial, and human resource-related);

❖ in the actual company valuation stage, regardless of the approach used in the valuation and the approach-specific methods, financial and accounting information is used;

There is also a reverse process in which the results of the valuation process are used in accounting, for example in mergers by absorption, the net contribution of each company to the merger, determined following the overall valuation of the company, is used to determine the mathematical and accounting value of the stock or shares, thus contributing to the assessment of the exchange ratio and eventually to the commensuration of the share capital increase and of the merger premium at the absorbing entity.

CONCLUSIONS

Valuators, in their approach to make competent valuations, should pay special attention to the analysis of the current activity and to highlighting the relevant economic trends. Among the important factors a valuator should take into account, I should mention:

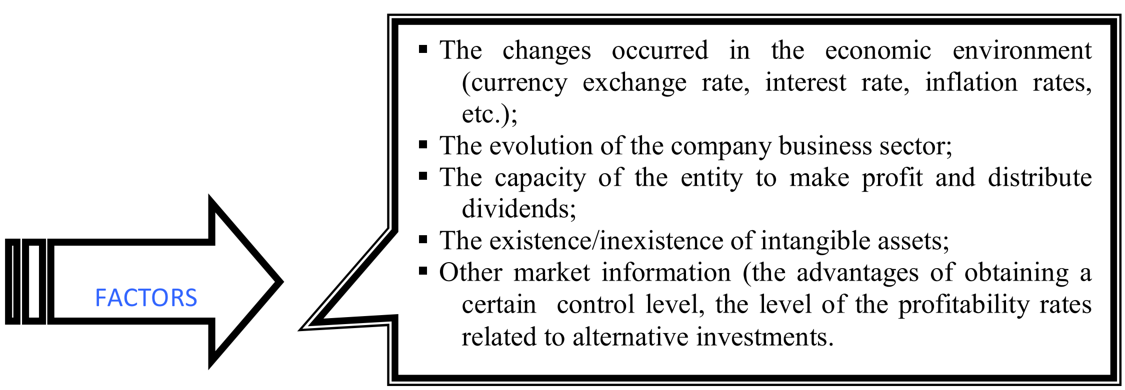

Figure no. 3 Important factors a valuator should take into account in assessing the value of the company

The company valuation basis is constituted by the accounting information supplied by managers, and the external information available (on the market). In relation to the accounting information supplied, mention should be made of the fact that there are major differences in the valuation basis of the assets and liabilities of various companies (even at the level of trading companies present in the same country and all the more so for entities in different countries). The accounting valuation is influenced by the accounting/fiscal norms and regulations. For example, currently, in Romania, the accounting regulations laid down through Order no. 1802/2014 approving the accounting regulations on individual annual financial statements and consolidated annual financial statements are applied in the case unlisted trading companies. Listed companies apply, from the financial year 2013, the International Financial Reporting Standards (IFRS), regulated by OMFP 1286/2012, applicable to trading companies whose securities are admitted to trading on a regulated market. At the same time, for the valuation of certain types of assets and liabilities, the economic law enables entities to choose from accounting/fiscal policies, which leads to a different valuation of the assets in the financial statements. The EU guidelines on accounting, applicable to unlisted companies, which were assimilated in the national legislation, observe, to some extent, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board -IASB. In spite of the fact that, the standardization of accounting has been attempted worldwide for a long time now, there are still differences between the accounting and fiscal regulations of various countries that influence the value of the assets presented in the financial statements. At the same time, the prices/conditions on the market, consumers' tastes/preferences, investors' options, etc. are changing continuously. All these require the valuator to make certain adjustments of the accounting information for the data standardization, homogenization and normalization.

Given that the value of the company is determined by its capacity to generate economic advantages, the balance sheet loses interest compared to the profit and loss account, as the latter provides a better image of this quality (Bengescu, M., 2006).

Financial statements adjustments should be made on the reported financial data, for the items that are relevant and significant in the valuation process. Adjustments could be adequate due to the reasons below:

- ✓ the adjustment of the incomes and expenses at reasonably representative levels, for the continuation of the operating activity (for example if the valuator has indications that a contract with an important client will cease in the future and there is no chance to replace it, he will make an adjustment to decrease the turnover);
- ✓ the consistent presentation of the financial data of the company in question, as well as of the baseline companies (if the market-based approach is applied, or by comparison, and the valuated company and the comparable one apply different accounting methods and options – for example, different stock valuation methods – financial and accounting data adjustments are made to ensure the comparability of the information);
- ✓ converting the recorded values into market values (necessary if the asset-based approach is used - ANC, or more specifically the Adjusted Net Accounting Asset method – and the sum of the asset market value will be deducted from the current debt amount);
- ✓ adjusting the assets and liabilities outside operation, as well as the incomes and expenses corresponding to them (for example if the company owns a protocol house, which is not used for operating purposes, it will be separated from the other assets, it will be valued separately at the net realizable value, and the company

value determined by various methods will be added to the net realizable value of the assets not used for operating purposes);

- ✓ adjusting the uneconomic incomes and expenses (for example, if it is believed that the company managers made trips for personal purposes and such trips can be prevented in the future, an adjustment is made to decrease operating expenses).

In conclusion, in the determination of the value, the valuator is based on the reported financial statements, drawn up in compliance with the accounting regulations in force, as well as additional non-financial information received from a client or its representatives. The valuator is not responsible for the conformation or verification of this information or of the financial situation, but must make sure that all the sources are credible and appropriate for the valuation purpose. Starting from the information sources, the valuator must make the required adjustments (normalization) of the profit and loss account or of the balance sheet, with the purpose of highlighting the economic reality as accurately as possible, to assess the perspectives of the entity and to provide its comparison with similar companies.

REFERENCES

1. **ANDONE, I., GEORGESCU IULIANA, TOMA C**., 2011, Metodologia cercetării în contabilitate, Editura Tehnopress, Iaşi;
2. **ANGHEL,** I. (coord.), 2010, Evaluarea întreprinderii, ed. Economică, Bucureşti;
3. **BENGESCU, MARCELA.,** 2006, Studiu comparat al normelor contabile privind cheltuielile şi veniturile întreprinderii. Ed. AGIR, Bucureşti;
4. **DRAGOTĂ, V., CIOBANU ANAMARIA., DUMITRESCU DALINA**.,2002, Evaluarea întreprinderilor, Ediţia a II-a, Editura Economică, Bucureşti;
5. **STAN, S., ANGHEL, I.,** 2013, Evaluarea întreprinderii, Ediţia a cincea revizuită, Editura IROVAL, Bucureşti;
6. **TOMA, M**., 2011, Iniţiere în evaluarea întreprinderilor, Editura CECCAR, Bucureşti;
7. **ANEVAR,** 2012, Bazele evaluării, Editura Iroval, Bucureşti
8. **OMFP 1802/2014** pentru aprobarea reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate
9. **Order no. 1286/2012** pentru aprobarea Reglementarilor contabile conforme cu Standardele Internaționale de Raportare Financiară, aplicabile societăților comerciale ale căror valori mobiliare sunt admise la tranzacționare pe o piață reglementată
10. ***–www.anevar.ro