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Reforming Master Programmes in Finance in Armenia and Moldova / REFINE

An Erasmus+ Capacity Building Project (2017-2020)

THE COURSE

Business Valuation

OVERVIEW

University Moldova State University

Teacher Andrei Mulic



BASIC INFORMATION



TITLE OF THE COURSE	Business valuation
TEACHERS	Andrei Mulic
YEAR OF THE COURSE	YEAR the 1st
SEMESTER OF THE COURSE	The 2nd semester
LANGUAGE	Romanian/ Russian/ English
NUMBER OF ECTS CREDITS	7

LEARNING COMPETENCIES



Transversal competencies (General knowledge, skills or competences):

- TC2. Self-assessment from the perspective of quality concerns, adaptation to new situations / conditions, openness to novelty and assuming responsibilities, roles and functions of leading the work of professional groups or entities in the business valuation sphere;
- TC3. Identifying personal development opportunities to diversify and enrich professional skills of a business appraiser, digital (IT) and financial calculation in order to calculate the value of national and foreign companies;
- TC4. Communication in a foreign language (English) for professional purposes in order to generate a report on the assessment and explain the results of the assessment for customers in English

LEARNING COMPETENCIES



Professional competencies:

- PC 1: Advanced use of national and international accounting standards and accounting techniques, national and international tax law and practice, and interdisciplinary approach to economic operations to provide financial, tax and investment consulting services;
- PC 2: Creation, autonomously and in group, design and implementing of strategies, programs and complex regarding business management using theoretical and practical knowledge
- PC 3: Identifying and using modern techniques and methods of financial management, financial reporting and diagnosing the economic and financial situation of the enterprises
- PC 4: Elaboration of reports and financial statements at the level of enterprises and financial groups; drawing up projects, budgets, forecasts and other complex professional approaches based on concepts, theories and economic methods assimilated in the public and private domains;
- PC 5. Advanced use of knowledge in the field of investment and taxation for the design, development and implementation of strategies, policies, procedures, financial-accounting management systems in public and private entities.

LEARNING OUTCOMES



- Creating and development of complex financial decision tools based on modern theories of financial management and evaluation;
- Applying methods and techniques of analysis, financial forecasting for a proper diagnosis of the company for the purpose of evaluation;
- Integrating of coherent methods and procedures in the direction of evaluating the elements of the enterprise property complex;
- Applying the income-based approach for the purpose of business valuation;
- Evaluating of enterprise using a cost-based approach;
- Applying a comparative approach for business valuation;
- Integrating of internal and external information for a comprehensive business valuation;
- Creating and implementation of financial decisions to maximize the market value of the enterprise.

SYLLABUS OF THE COURSE



WEEK	TOPIC
1-2	Business Valuation - introductory notions
3-4	The evaluation process of the company
5-6	Diagnostic of the company
7	Economic and financial diagnostic
8-9	Evaluation methods: cost approach
10-11	Valuation methods: income approach
12-13	Evaluation methods: comparative approach
14-15	Reconciliation of results and evaluation report

SYLLABUS OF THE COURSE

ADMINISTRATION OF THE DISCIPLINE



Code of discipline of the study plan	Title of the course	Responsible for discipline	Semester	Total hours				Assessment	Number of ECTS credits	
				Total	inclusive					
					C	S	L			IW
ORIENTAL TIMETABLE AND ORIENTAL DISTRIBUTION OF HOURS										

Nr	Content units	Number of hours per week		
		Lecture	Seminars	Individual Work
1.	Business Valuation - introductory notions	4	4	10
2.	The evaluation process of the company	4	4	20
3.	Diagnostic of the company	4	4	20
4.	Economic and financial diagnostic	2	2	20
5.	Evaluation methods: cost approach	4	4	20
6.	Valuation methods: income approach	4	4	20
7.	Evaluation methods: comparative approach	4	4	20
8.	Reconciliation of results and evaluation report	4	4	20
Total		30	30	150

WEEK 1-2



TOPIC I Business Valuation - introductory notions

1. The specificity of the business and the enterprise as object of the evaluation.
2. Necessity and goals of business evaluation.
3. The types of value and the factors that influence the value of the business.
4. The principles of evaluation.

Key words: value, price, cost, value of the company.

As a result of learning the subject, the student must know:

- the basics of business evaluation
- principles of business evaluation
- the necessity and the goals of business evaluation
- the types of value and the factors that influence the value of the business

As a result of learning the subject, the student must be able to:

- communicate effectively using the terminology and notions related to business evaluation
- apply the principles of evaluation according to the purpose of the evaluation
- highlight the factors that have a major influence on the value of the business

WEEK 3-4



TOPIC II. The evaluation process of the company

1. Defining the problem.
2. Diagnosis of the company.
3. Business valuation approaches.
4. Reconciling values and estimating the final value.

Key words: diagnosis, valuation methods, reconciliation, evaluation report

As a result of learning the subject, the student must know:

- the evaluation process of the company
- the components of the enterprise diagnosis
- business evaluation methods

As a result of learning the subject, the student must be able to:

- identify the types of diagnostics needed in the evaluation process
- determine the evaluation method according to the purpose and the destination of the evaluation

WEEK 5-6



TOPIC III. Diagnostic of the company

1. Commercial diagnosis.
2. Operational diagnosis
3. Diagnosis of human resources and management.
4. Legal diagnosis.

Key words: diagnosis, information adjustment, update rate, multipliers.

As a result of learning the subject, the student must know:

- the categories of information needed in the process of business evaluation
- the sources in which the information needed for evaluation can be found
- the financial indicators needed in the evaluation process

As a result of learning the subject, the student must be able to:

- prepare (transform, modify) the information for the purpose of evaluating the business
- to make the commercial, legal, operational, human resources and management diagnosis.

WEEK 7



TOPIC IV. Economic and financial diagnostic

1. The importance and purpose of the economic-financial diagnosis for evaluation.
2. Adjusting the financial accounting information.
3. Diagnosis of the assets situation
4. Diagnosis of profitability
5. Risk analysis of the company

Key words: financial diagnosis, financial indicators, Z scoring.

As a result of learning the subject, the student must know:

- the importance and purpose of the economic-financial diagnosis for evaluation.
- how to adjust the accounting financial information.

As a result of learning the subject, the student must be able to:

- adjust the financial accounting information
- diagnose the assets situation
- make a profitability diagnosis
- analyze the risk of the company

WEEK 8-9



TOPIC V. Evaluation methods: cost approach

1. The net assets method (real estate valuation, securities valuation)
2. Net assets method (valuation of intangible assets, valuation of financial assets, valuation of other assets)
3. Estimation of the liquidation value

Key words: cost, assets, inclusion value, reconstitution value, liquidation value.

As a result of learning the subject, the student must know:

- the methods included in the cost approach
- cases of applying one or the other method
- evaluation of the building
- evaluation of the machine
- valuation of non-material assets
- valuation of financial assets

As a result of learning the subject, the student must be able to:

- apply the evaluation methods correctly
- to correctly estimate the value of the company

WEEK 10-11



TOPIC VI. Valuation methods: income approach

1. Cash flow forecasting method.
2. The method of capitalizing the income.

Key words: cash flow, net profit, discount rate, capitalization rate, DCF.

As a result of learning the subject, the student must know:

- the methods included in the income approach
- cases of applying one or the other method
- methods for determining the discount rate and capitalization rate

As a result of learning the subject, the student must be able to:

- apply the evaluation methods correctly
- to appreciate the value of the business by the chosen method
- to argue the size of the discount and capitalization rate

WEEK 12-13



TOPIC VII. Evaluation methods: comparative approach

1. Characteristic of the approach.
2. The principles of the choice of comparison companies.
3. The characteristic of price multipliers.
4. Formation of the final size of the value.

Key words: market value, financial multipliers, information adjustment.

As a result of learning the subject, the student must know:

- the methods included in the comparative approach
- cases of applying one or the other method
- ways to determine the multipliers
- methods for determining adjustments
- the specificity of appreciating the value of a small package of shares.
- the specificity of the valuation under conditions of low liquidity

As a result of learning the subject, the student must be able to:

- apply the evaluation methods correctly
- to choose the right comparison companies
- to appreciate the value of the business by the chosen method
- calculate the premium for control, reductions for the uncontrollable character of the share package.
- Calculate the discount for lack of liquidity and other discounts.
- Determine the final value.

WEEK 14-15



TOPIC VIII. Reconciliation of results and evaluation report

1. The process of reconciling the resulting values
2. Estimating the final value
3. Purpose, structure and content of the report.
Instructional example.

Key words reconciliation of results, reconciliation criteria, value of the company, evaluation report.

The students should be able to:

As a result of learning the subject, the student must know:

- Criteria underlying reconciliation
- The procedure for reconciling and determining the final value
- Structure and content of the report

As a result of learning the subject, the student must be able to:

- to review the technical and conceptual positions of the analysis
- determine the final value of the evaluated object

TEACHING METHODOLOGY



- In the teaching of the discipline are mainly used interactive methods: problem-solving, case study, heuristic methods by which the student is stimulated to find solutions through the outcome of his own learning activity, interactive-creative learning, brainstorming, blended learning, E-learning MoodleUSM.md (<http://moodle.usm.md/moodle/>), but also traditional methods like: description, explanation of economic phenomena and processes, graphic representations, comparison

TEACHING METHODOLOGY



- The forms of organizing the training at discipline are made up of lectures, seminars, guiding the individual activity, extra-curricular activity of financial education. In the lectures are taught the basic concepts of the themes of the discipline, the principles of performing business valuation in specialized financial institutions, the functions, methods and tools used in the management of the financial processes, etc.
- The purpose of the seminars is to examine the most complicated concepts, to solve problems related to the topics studied, to discuss case studies. In the course of the seminar, students are tested on the students' level of learning, the presentation of the individual work (case study).

TEACHING METHODOLOGY



The case study represents a method of directly confronting the participants with a real, authentic situation, taken as a typical example, representative for a set of situations and problematic events. The goals of this method, heuristic and applicative, are:

- achieving the contact of the participants with the complex, authentic realities of a given field, in order to familiarize them with the possible aspects and to develop their decisional, operative, optimal capacities and abilities to solve the possible problems;
- checking the degree of operationality of the acquired knowledge, skills and abilities, behaviours, in limit situations;
- systematization and consolidation of knowledge, self-evaluation by each participant in part, the degree of their applicability in the created situations;
- educating the personality, the attitudes towards the other participants and towards the respective case, the maturity treatment of the situations;
- exercising organizational, leadership, evaluation and decision-making skills, as in a real situation;

LABOUR MARKET RELEVANCE



- The importance of the course "Business valuation" is dictated by the need to train future economists with a new economic thinking, the skills of applying the valuation methods in the market conditions and the free entrepreneurship activities.
- Based on the analysis results from WP 1 (p. 11, 22, 25 Figure 2, 4, 6, Annex 1B, Figure 16-18) the most important FINANCE - specific skills and competencies of current employees - Level of the MA graduates is: Analyzing Data, Business Analytics and Business Valuation; Knowledge of international standards. Features of this specialty consist in the need for students to develop knowledge and skills in the field of Business Valuation.

LABOUR MARKET RELEVANCE



- Evaluation as a professional activity should meet the current needs of economic conditions, as well as take into account both regional and industry specificities.
- The study of this discipline allows students to acquire the necessary knowledge about evaluation activity, which is an important component of financial services in a modern market economy.
- This discipline provides the student with a theoretical and practical basis for the evaluation process in the Republic of Moldova, thus forming the student's ability to determine the value of any element of the enterprise's property. The assessment is closely related to disciplines such as accounting, taxation and financial analysis. Therefore an adequate assessment is not possible without knowledge in these adjacent areas.

LABOUR MARKET RELEVANCE



- Discipline "Business valuation", will create necessary competences for following occupational posts (according to the Classification of Occupations in Moldova): 1120 Directors-General, Executive Directors and Assignees, 1211 Financial heads, 1213 Heads in the field of economic and planning policies, 1346 Heads of units providing financial and insurance services, 2412 Financial and investment specialists and consultants, 4312 Officials in the field of statistics, finance and insurance.
- More than that, the internalization of economic relations requires economic entities to be more competitive on international markets, that is why it is important to adapt the teaching process to new international trends in Business valuation.
- Developing course units (modules) to course "Business valuation" in partnership with labor market representatives, analysis of real case studies offered by companies and recommending solutions to some problems in practice national companies.

ASSESSMENT AND GRADING



In order to evaluate the learning outcomes within the discipline, it is done:

- 1. Current evaluation - is conducted throughout the semester during courses, seminars, consultations. They are also rated on a scale of 1 to 10 compulsory semesters, which take place in pre-established periods in the annual academic calendar. The weight of the current assessment is 60% of the final grade.
- 2. Final assessment - is done through the written exam, using the institutional test, consisting of 2 subjects of tasks on 3 levels with different degree of complexity (knowledge, applied, integration). The weight of the mark on the exam is 40% of the final grade in the discipline.
- 3. Evaluation of the product of individual work - is done outside direct contact hours: at counselling hours or in the sessions of the student's academic seminar.

ASSESSMENT AND GRADING



a) The final grade in the discipline is calculated according to the MSU Academic Performance Evaluation Regulation: Semester grade (60%) + Examination note (40%)

- The semester assessment is determined based on the components that make up the current evaluation:

$$\text{Semester assessment} = \frac{T_1 + T_2 + \frac{MEC + LI}{2}}{3}$$

- T1 - mandatory Test 1.
- T2 - - mandatory Test 2.
- MEC - the average of the current assessment, is calculated as a simple arithmetic mean of grades accumulated in seminars and courses.
- LI - not granted for the final product presented for the individual work carried out.
- - Final exam (final assessment) - 40%;

b) Minimum requirements for promotion

- } Obtaining the minimum promotion mark for the discipline (semester note);
- } Obtaining the minimum mark for promotion at the course exam;
- } elaboration, presentation and support of individual work;

REFERENCES



1. International Valuation Standards: Businesses and Business Interests (IVS 200), Intangible Assets (IVS 210), Plant and Equipment (IVS 300), Real Property Interests (IVS 400), Development Property (IVS 410), Financial Instruments (IVS 500)
2. Law R.M. regarding the evaluation activity, no. 989-XV of 18.04.2002. M.O. to R.M. no. 102 of 16.07.2002.
3. Corelli, Analytical Corporate Finance (Springer Texts in Business and Economics), 2nd ed. 2018, Springer, ISBN 978-3-319-95761-6
4. Röman, Analytical Finance: Volume I-II: The Mathematics of Equity Derivatives, Markets, Risk and Valuation, Palgrave Macmillan, London, 2017, ISBN 978-3-319-34026-5, 492 p.,
5. Mulic Andrei, Loginiv Pavel «Application of the model of effective property value management to optimize the financial management of the enterprise» Collection of scientific papers, International Scientific Conference «Economic-financial and social aspects of the economy of the Republic of Moldova in the context of systemic transformations and integration in the European space March 26-27, 2010 Chisinau p 371-378 USM ISBN 978-9975-71-084-8

Approved _____
Department head
Dr.conf.univ Ștefaniuc Olga

Topic I Valuation methods: comparative approach

1.1. Define the concept of valuation of enterprises using comparative sales approach.

II. At the application level 5 p.

1.2. Explain the principles and features used in the process of business valuation by a comparative approach.

III. At the level of integration 7 p.

1.3. «AgroProfi» LLC decide to Evaluate a three-story office building (by the method of percentage and absolute monetary adjustment) for an office with an underground garage. If there is a building similar but without an underground garage sold at a price of 230,000 dollars. There is also data on the following objects analogues:

COURSE ASSIGNMENT 1



Building	The presence of an underground garage	Physical characteristics and purpose of the object	Price
1	+	Three-story office building	210 000
2	-	Also	240 000
3	+	Two-storey building for a shop	280000
4	-	Three-story production room	310000

Topic II. Business Valuation - introductory notions

I. Level of knowledge 3 p.

1.1. Define the concept of types of value, the need and objectives of the valuation of enterprises.

II. At the application level 5 p.

1.2. Explain the specifics of business and enterprise as an object of evaluation.

III. At the level of integration 7 p.

1.3. Determine the value of the «Tds&co» LLC, consisting of: a production building, measuring 40m x 20m x 7m - renting out for 4 years brings the company 120 lei per month for each sq.m., maintenance costs are 22%, the capitalization rate is 13%; Rent will increase by 8% annually. The update rate is 16%. The cost of one cubic meter of the production building is 1200 lei.

COURSE ASSIGNMENT 1



Structural elements	specific gravity of elements, %	amortization of elements, %	amortization of the building by elements %
1. The foundation	7	25	
2. Walls	33	40	
3. Roof	15	20	
4. Exterior finish	15	45	
5. Interior decoration	13	25	
6. Communications	10	18	
7. Other elements	7	19	
Total	100	-	

The scale of assessment

Points	6 – 8	9 – 11	12 – 18	19 – 25	26 – 28	29 – 30
Note	5	6	7	8	9	10

Responsible Professor: Dr. associate prof. Mulic A. _____ \ _____ 2019

COURSE ASSIGNMENT 2/OR CASE STUDY DESCRIPTION



Introduction of the case / problem:

- This case study will be analyzed at the seminar.
- This case study is interdisciplinary and will be used in the development of individual works in two disciplines.

Refers to content units:

- Corporate Finance
- Business valuation

The course notes, available online at www.moodle.usm, will be consulted.

CASE STUDY Part II Business valuation

- Determine the value of the «Franzeluta» JSC, having the following data:
 - - industrial building = $50 * 40 * 5$ m
 - - sales of goods A = 10000 pcs
 - - the volume of sales of goods B = 20,000 pcs
 - - the cost of a unit of goods A = 20 lei
 - - the cost of a unit of goods B = 16 lei
 - - the cost of production of goods A = 63%
 - - the cost of production of goods B = 45%
 - - market value of one m² of industrial building = 990 lei

COURSE ASSIGNMENT 2/OR CASE STUDY DESCRIPTION



- Forecasts:

Indicators	Year		
	2020	2021	2022
1. The increase in sales of goods A, in%	10	10	12
2. The increase in sales of goods B, in%	5	10	15
3. amortization, in lei	5000	6000	6500

- The value of the company's net assets in 2019 is 11,000,000 lei, the profitability of the company is 19%.
- Building data for valuation of amortization

COURSE ASSIGNMENT 2/OR CASE STUDY DESCRIPTION



Structural elements	specific gravity of elements,%	amortization of elements,%	amortization of the building by elements%
1. The foundation	15	10	1,5
2. Walls	25	15	3,75
3. Roof	13	25	3,25
4. Exterior finish	18	20	3,6
5. Interior decoration	6	26	1,56
6. Communications	16	11	1,76
7. Other elements	7	15	0,45
Total	100	-----	15,87

Task for the students

- 1. Making the diagnosis of the company for the purpose of evaluation.
- 2. Evaluation of the enterprise by the method of income.
- 3. Evaluation of the enterprise by the method of expenses.
- 4. Evaluation of the enterprise by comparative method.
- 5. Reconciling the resulting values.
- 6. Preparation of the evaluation report of the company.

COURSE ASSIGNMENT 2/OR CASE STUDY DESCRIPTION



- At the end of the project (case study), the group of students develop a presentation and show it to a financial manager, director of an investment fund or a partner of a Joint Stock Company “Franzeluta” from Republic of Moldova.
- Evaluation is carried out on the basis of (whole) assessment for each of the six parts mentioned, as well as report correctness indicators (Introduction - Main conclusions (s), Romanian / English / Russian, good argumentation, clarity of the material, contribution of each student in the overall task) and, finally, an indicator of originality. The final mark is the average of these five numbers, rounded to one decimal place. There may be deviations from the per student.

COURSE ASSIGNMENT 2/OR CASE STUDY DESCRIPTION



Table 1. Requirements regarding the structure, implementation strategies and terms of presentation of the product of the individual work.

CASE STUDY		
Structure	Implementation strategies	Deadline for submission
<ol style="list-style-type: none"> 1. The title sheet; 2. Description of the case and the tasks formulated (by the subject holder); 3. The methodology applied, which includes: <ol style="list-style-type: none"> a. information base (legislative and normative framework, methodological, monographic sources, scientific papers, statistical databases, etc.) b. the research methods used (quantitative and qualitative); 4. Solving the case; 5. Conclusions and / or decisions taken; 6. Annexes (if necessary) 	<ol style="list-style-type: none"> 1. Documentation of the case; 2. Analysis and processing of information 3. Finding and scoring solutions; 4. Analysis and comparison of solutions (variants); 5. Formulate and present optimal solutions and / or decisions; 6. Perfecting the product according to the technical requirements submitted. 	<p>At least 2 weeks until the end of the semester.</p>



THANK FOR ATTENTION
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