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METHODOLOGICAL APPROACHES TO ASSESSING THE VALUE OF A BUSINESS

Valuation of business – is the process of sighting the value of property of the enterprise on the date of valuation according to the method, transformed by regulations, which will lead to the practical activities of the appraiser.

The evaluation process depends on the cause, which leads to it, and the goals pursued. In this case, the same object, depending on the purpose, on one date has a different value, which will be determined by different methods.

In general, practical methods in foreign business valuation practice are represented by three main approaches, in which the company is considered from different sides of the business: the cost approach, the income approach, and the market approach [1].

The income approach is based on determining the present value of future potential income that will result from the use of the property and its possible resale. When valuing using the income approach, the main thing is the income, which determines the value of the object. The higher the income that the object of assessment brings, the greater the value of its market value. The length of the period of possible income, the degree and type of risks that may accompany this process are important.

The cost approach is mostly used to evaluate special purpose objects, as well as new construction, to determine the best and most efficient use of the object, as well as for insurance purposes. The data obtained include information on the price of land, construction specifications, data on the level of wages, cost of materials, equipment costs, income and unprofitable costs of builders in the local market, and so on. The information required depends on the specifics of the object of evaluation [2].

This approach is difficult to apply when evaluating unique and specific objects that have historical value, aesthetic characteristics, or obsolete objects.

The comparative approach is particularly effective for use in an active market for comparable properties. The accuracy of the valuation depends on the quality of the information obtained, because using this approach, the valuation entity must collect true data on recent sales of comparable items. These data include: physical characteristics, time of sale, location, terms of sale and financing. Objects that are in a competitive environment with ours are selected for comparison. Of course, there are differences between them, so it is necessary to make appropriate adjustments to the data [3].

Each of these approaches can be applied using different methods. Usually, to get a real assessment, use all three approaches, and then adjust the results to a single value of the business assessment.

References

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2. Ukolova O.O. Modern methodological approaches to estimating the value of the enterprise. *Development management*. 2013. № 14. pp. 23-28.
3. Tereschenko O.O. Financial activities of economic entities: a textbook. K.: KNEU, 2013. 554 p.