



You come to Enterprise Appraisal Company because you need to determine the value of an asset. However, without identification of the proper Standard of Value, the appraisal report may be useless for the purpose of the assignment. We will provide an overview of different standards of value and their purpose. Subsequent newsletters will discuss these standards in much more detail.

What is "Value"?

The "Standard of Value" is the most critical criteria for an appraiser to determine the value of an Asset

Along with the date of valuation, the Standard of Value sets the critical parameters in determining the value obtained in an appraisal assignment, and fixes the use of that appraisal report. We will briefly discuss six different "standards of value" most frequently requested by business owners, lending institutions, professional advisors, and corporate managers.

1. **Fair Market Value**--As defined by the US Internal Revenue Service fifty years ago in RR 59-60, "value" is defined as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. This standard must be utilized in any valuation for gift, estate or inheritance tax purposes.
2. **Fair Value (FASB)**--The defined standard of value for financial reporting purposes, the definition from the Financial Accounting Standards Board (FASB), as contained in SFAS 157, effective December 15, 2007, Fair Value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at the measurement date. Notice, the "willing buyer" is omitted in the definition, but "orderly transaction" is present. This standard must be utilized for purchase price allocation valuations and financial reporting for publicly traded companies in the United States, or private companies reporting under US GAAP.
3. **Fair Value (IASB)**--A similar definition, from the International Accounting Standards Board (IASB) and found in IFRS 3, is the amount an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. This standard is utilized by companies based in countries that have adopted IASB standards, and may be utilized by multi-national companies operating in the US, but based in a country recognizing IASB, even if the transaction is totally US based. Note the "willing parties" is included (buyer and seller), but "orderly transaction" is omitted.

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4. **Fair Value**--Many business valuation professionals will use the term "Fair Value" to define the value obtained in a Fair Market Value appraisal of a privately or closely held entity prior to any application of discounts for lack of marketability or control. This would be applied only to the value of the entire business entity, not to individual shares or stockholders
5. **Orderly Liquidation Value**--This value, typically required by lending institutions for equipment, adds a compulsion to sell to the Fair Market Value definition. While subjective, the asset should be sold in 12 months or less, and is calculated net of removal costs, if applicable. The value may also be computed as "severed", that is, removed from the production area. Forced liquidation value adds a more severe time compulsion, including immediate auction, which can greatly decrease the value of the asset.
6. **Insurable Replacement Cost (New)**--When determining the amount of insurance coverage to be placed on an asset, IRCN is the cost to replace the asset in kind, without regard to economic obsolescence or depreciation, with an item of similar utility. The IRCN may include additional utility due to legal or mandated improvements in, for example, safety or environmental performance.

While the concept can be confusing, it is best to discuss with your appraiser and professional advisors the ultimate use of the valuation instrument, and a proper Standard of Value will be chosen. Failure to do so will likely invalidate the appraisal.

Enterprise Appraisal Company provides accurate, timely and defensible fair value and market value appraisals of industrial and commercial real estate, machinery & equipment and intangible assets and valuations of minority stock and overall business entity for financial reporting, including purchase price allocation and goodwill impairment, tax, insurance, lending, estate and corporate planning requirements. We provide these services to both public and private companies, meeting the reporting requirements of the Financial Accounting Standards Board (SFAS), the International Accounting Standards Board (IFRS), and the US Internal Revenue Service (IRS). We have delivered more than 10,000 appraisals to more than 1,500 clients, ranging from multi-billion dollar multi-national companies, to small privately held companies and partnerships. Please visit our [web-site](#) or call us at 610-687-5855.

Sincerely,

Frank L Merenda
President
Enterprise Appraisal Company

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**What is
"Value"?**

There are many definitions of "Value". When determining the value of an asset, the right standard must be used.

