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Discounted Cash Flow Method in Assessing the Value of the Enterprise

Abstract. Evaluation of the rights of the owners of the company, is the primary indicator of the company's profit potential over time. The income approach as the basic principle. Method of discounting future revenues, as the present value of the future income from the acquisition of objects, successfully used for the assessment of real estate.
The benefits of real estate transactions in the future, future revenues and reversïyanı time in the form of income during the period of ownership, ie the profit from the sale of the property at the end of the period of ownership.
The enterprise value – the amount of income for several years and calculated as the difference between the amount of the borrowed funds which are involved, generates future income, expenses and cash flows.
Future costs and the results of the evaluation of the company are to be determined within the reporting period and the amortization horizons. Computer horizons are measured by the number of steps of the calculation. Discounted cash flow method, the assets of the enterprise value of their cash income are measured by the ability to import.
Key words: The income method, real estate prices, the estimated value, capitalization rate.

Introduction

The history of mankind shows that people always aimed to live in the best natural environment – in the fertile lands, have convenient harbors in auspicious climate, the presence of water and fuel resources, in areas where the bearing capacity of soil, the depth and other natural characteristics auspicious for construction. Staying in such places, people built houses, public buildings, religious buildings, industrial and farm buildings, public facilities, combined their roads auspicious territory settlements, and adapted them for life. Economic development, business activity, the relevant laws determined the style and standard of living and behavior.

Methods

All evaluation method involves a preliminary analysis of certain information base and the corresponding calculation algorithm. All methods of assessment can determine the value of the business at a specific date and all the methods are market because take into account the current market conditions, market expectations of investors, market risks associated with the business are measured, and the expected "response" of the market with the purchase and sale transactions valued.There are two methods of evaluation to determine the income method used in the world: the direct capitalization method and the discounted cash flow method. This is the most universal method for assessing the value of different types of property of the company.

Main body

Evaluation of the rights of the owners of the company, is the primary indicator of the company's profit potential over time. Its capitalization is determined by the formula:

$$\mathbf{V = I / K}$$

V – the current value
I – income
K – the leverage ratio

The income approach as the basic principle is the principle of waiting. Method of discounting future revenues, as the present value of the future income from the acquisition of objects, successfully used for the assessment of real estate. The benefits of real estate transactions in the future, future revenues and reversïyanı time in the form of income during the period of ownership, ie the profit from the sale of the property at the end of the period of ownership.

Discount methods in the following sequence:

1. The determination of the length of the period of the Income;

2. Each year cash flow forecast for the period of ownership.

Cash flow is the main functional activities, the company's annual results. Discounted cash flow of the first details of the process are:

– The amount of income and nature of change;

– A sequence of income (monthly, quarterly, semi-annual, annual);

– The length of time that is expected of the successful.

3. The discounted cash flow is based on the use of the theory of the time value of money, the future cash flows for the period, and to determine the present value of all the current is determined on the basis of a set of values.

4. The appraiser issues facing a cash flow discount:

– Net operating income;
– Pre-tax investment income;
– Investment income, after tax;
– Income on bank loans;
– The success of the lease agreement the lessor.

5. The discount rate is defined as the average profit margin directly proportional to the rate of risk. If you have a high level of risk, the higher the discount rate will be, the lower the present value of the future income will be.

6. At the end of the term of the present method of acquisition of calculating earnings from the sale of real estate property and assume it without the discount rate by the current value.

7. Income from the sale of flow and the present value of (reversion) revenues.

8. The enterprise value – the amount of income for several years and calculated as the difference between the amount of the borrowed funds are involved. Generates future income, expenses and cash flows.

Future costs and the results of the evaluation of the company are to be determined within the reporting period and the amortization horizons.

Computer horizons measured by the number of steps of the calculation. Discounted cash flow method, the assets of the enterprise value of their cash income is measured by the ability to import.

The net cash flow is a key indicator of this methodology. Cash flow direction has characterized monetary income and cash outflow.

Net cash flow time is defined as the difference between the input and output of cash. Enterprise work carried out during the three types of services: operating, investing and financing.

To assess the value of the company by discounting future revenues, cash is necessary to evaluate the input and output.

Operating and investment activity is referred to as the difference between their actual cash flows.

Real money balances of the three types of enterprise all the difference between profit and cash flow.

Money income **Cash outflow**

Operating activities

Cash	charges for the sale of raw materials
loans receivable on revenue	Salary Rent payment , Taxes

Investment services

Income of investment in securities	Purchase of fixed capital
Proceeds from the branches	Budget costs
Proceeds from selling assets	Investment funding

Financial services

Payment for sale securities	Dividends and proceeds
Borrowing	Repayment of obligations under the bond and credit

Figure 1– Monetary income and expenses of the company are shown.

Business income, mainly due to:

Sell their goods for cash, receive payments for goods and lent debtors;

– Within the country or abroad, or income from investments in securities transactions in branches;

– Different types of securities, and sell;

– Do not need one or more of the assets;

– Refuse loans, etc.

Business cash outflow is made due to the following:

– Attract and raw materials for its activities;

– Pay its employees, its capital has the ability to work with and implement new investments;

– Dividends and interest paid on loans obtained;

– The amount of the loan principal on bonds and loans, etc.

The final result is defined after tax net income of the company. However, this depreciation can be added to the funds. This increases the value of the enterprise funds.

Actual cash flows include certain types of income and expenses.

1. Operating services:

1. Sales volume;
2. Price;
3. Profit (1 * 2);
4. The income from the sale;
5. The variable costs;
6. Fixed costs;
7. Depreciation of the building;
8. Depreciation of equipment;
9. Interest on loans;
10. Profit before tax receipt of (3 + 4-5-6-7-8);
11. Tax payments and savings;
12. The projected net income;
13. Depreciation and amortization (7 + 8);
14. The net operating income (12 + 13);

2. Investment services:

1. Earth;
2. Buildings and structures;
3. Machinery and equipment;
4. Intangible assets;
5. Total: fixed capital formation (1 + 2 + 3 + 4 = 5);
6. The increase in working capital;
7. All investments (6 + 5).

3. Financial services:

1. Equity capital (shares, subsidies);
2. Short-term loans;
3. Long-term loans;
4. Loan repayment of loans;
5. The payment of dividends;
6. The balance of the financial activities of (1 + 2 + 3-4) for a project;

(1 + 2 + 3-4-5) – recipient.

To determine the actual cash flows from the investment activity, it is necessary to determine the net cost of the destruction of the object:

1. Market value;
2. Costs;
3. Accumulated depreciation;
4. The amount of time in the step (2-3);
5. Remove costs;
6. The increase in the cost of capital income;
7. Operating Income (1- 4 + 5);
8. Taxes;
9. Clean the residual value (1-8).

If the company considers free cash investment, which actually uses the money collected to determine the actual balance of the cash flows, all cash payments or losses are recorded. For example, the purchase of inventory or property, includes money, real money out, but not these costs. There is a number of methods for the calculation of cash flows:

1. Net operating income – this is the real gross income minus all operating costs of the remaining income in the form of an annual amount.

2. The pre-tax cash flow and calculated that the amount of amortization payments on borrowings, a portion of the net operating income.

Amortization of capital used in the operating activities of the company in its main physical and moral degradation compensation purposes, provides cash transfers.

Depreciation is dependent on three factors:

– the main production funds, carrying value of plant and equipment;

– equipment services to the planned date for the release of the balance sheet;

– the company's method of calculating the depreciation rates.

Of the final 2 makes adjustments to the value of the enterprise. The first one includes the cost of operating assets unfit for service. The other owners the advantages of working funds (+) loss (-).

Conclusion

The income approach is one of the most important concepts is the income capitalization. It is measured in terms of potential profit opportunities in the value of the object, methods and collections. The acquisition of real property appraiser using the income approach measures the current value of future income. Stream of income during the period of ownership and re-capitalization ratio using the current value of the profit from the sale of the property are capitalized. Net operating income – is the calculated amount of the expected annual net income. The sum to need to take a mortgage loan and a deduction of wear of depreciation and after removal settlement reserves of property and operational costs. Definitions of the net operating income, the basis on a property rent is supposed. For calculation of the operating income it is necessary to calculate the potential income. A single payment and the total size of the market in the last year before the date of the assessment are shown as other income. The obtaining the potential income it is supposed that you can rent and it is free. The appraiser needs to know that valued property is on the rental market during the calculating of potential total income. The appraiser needs to compare the valued property with other same objects on market and to amend the difference between them. The best method of amending is to select the relative pairs of leased object. If such objects are similar, but there is a significant change in some parts, amendments can be calculated on the basis of market information.

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