Promoting Professionalism in Accountancy

# INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

# INFORMATION PAPER: VALUATION OF BUSINESSES

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**Plot 42 Bukoto Street, Kololo, P.O. Box 12464, Kampala, UGANDA**
**Tel:** 0414 - 540125, 0393 - 262333 / 265590, 0712 - 830681, 0701-540125
technical@icpau.co.ug, icpau@icpau.co.ug
www.icpau.co.ug

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## Disclaimer

The information given in this paper is based on the review of some of the common business valuation methods and best practices. It is intended to provide guidance on how ownership rights in a business, business interest, security, or intangible asset may be valued for purposes of financing, tax planning and compliance, intergenerational wealth transfer, ownership transition, financial accounting, bankruptcy, management information and planning and litigation support. The use of professional judgment is an essential component of estimating value.

Please note that the paper may not be a comprehensive summary of the known valuation practices. It includes information on matters which are relevant to ICPAU members. The paper is not intended to be exhaustive and should not be viewed as a substitute for reading other available guidance on valuation. If any part of this paper differs from published governmental, judicial, other accounting authority, or such authority specifies valuation development procedures or valuation reporting procedures, then the Certified Public Accountant (CPA) should follow the applicable published authority or stated procedures with respect to that part applicable to the valuation in which the member is engaged.

The information contained in this paper does not constitute legal advice and should be treated with caution.

Although ICPAU has consulted widely on contentious issues, it is possible that a different view may ultimately be followed in practice. ICPAU recommends that any decision or actions being considered in relation to valuation services may be checked with appropriately qualified professionals. ICPAU therefore disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of information contained in this paper.

## ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established under an Act of Parliament, now the Accountants Act, 2013.

The functions of the Institute, as prescribed by the Act, are to regulate and maintain the standard of accountancy in Uganda and to prescribe and regulate the conduct of accountants and CPAs in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial information in Uganda.

### Vision

To be a world class professional accountancy institute.

### Mission

To develop, regulate and promote the accountancy profession in Uganda and beyond.

### Core Values

1) Professional Excellence.
2) Integrity.
3) Commitment.
4) Good Governance.
5) Social Responsiveness.

### Affiliations

The Institute is a member of the International Federation of Accountants (IFAC), the Pan African Federation of Accountants (PAFA), the Association of Education Assessment in Africa (AEAA) and the Private Sector Foundation of Uganda (PSFU).

# 1.0 INTRODUCTION

## 1.1 Overview

Accountants perform valuation services for numerous purposes, including transactions, financing, taxation planning and compliance, intergenerational wealth transfer, ownership transition, financial accounting, bankruptcy, management information, and planning and litigation support. These Guidelines are intended to provide CPAs with professional guidance on law and best practices related to valuation of business. The Guidelines aim at:

- Improving the quality and consistency of valuation practices.
- Enhancing the transparency and replicability of valuation analyses and reports.
- Encouraging the standardization of valuation analysis data gathering and valuation report content and formats.
- Recognizing what are (and are not) generally accepted valuation approaches and methods.
- Enhancing the reliance on the valuation process by clients and other stakeholders.
- Encouraging a clear documented understanding between members and clients as to:
  (a) the level of valuation service and
  (b) the type of valuation report.

In recent years, the need for business valuations has increased significantly. Performing such engagements to estimate value involves special knowledge and skill.

## 1.2 Introduction

Most small businesses that incorporate do so as private companies. Generally, businesses are valued at a price that a buyer and seller are willing to accept as a fair value for trade. Without an actual market for trading, establishing a valuation for businesses becomes difficult. For instance, valuation of private shares is often a common occurrence to settle shareholder disputes in circumstances when shareholders seek to exit a business, resolving disputes related to tax and inheritance and many other reasons. Unlike public companies that have the price per share widely available, for a private company, share valuation can be quite difficult because of absence of a public market for the shares.

## 1.3 Determinants of Value of a business

Value is that price at which shares would change hands between a willing buyer and a willing seller, both parties being in possession of all the facts, and neither party being under any compulsion to buy or sell. In corporate finance the value of a firm is the present value of its expected cash flows, discounted back at a rate that reflects both the riskiness of the cash flows, and the financing mix used to finance them. Basing on the later definition, three pillars of value are identified as; Cash flows generated by the entity; the riskiness of those cash flows (and no other cash flows) and the financing mix (debt, equity, convertibles, leasing debt etc…)

In principle as will be discussed later, value of a business is determined by;

- History of stable growth and profits
- Product Cycle point;
- Market share Size;
- Industry: Infancy or Mature
- Customer base, Diversification,
- Diversification Growth potential;
- Growth potential; Revenue and Profit Trends
- Competitive positioning
- Product mix; Uniqueness;
- The value of similar companies
- Strategy for continued growth and profitability among others

### 1.4 What does a business valuer needs to know?

As a practice, a CPA needs to possess skills and knowledge in Accounting, Capital Structure Corporate Governance Implications, Economics, and Financial Statement Analysis, Growth Analysis, Industry Information, Legal Environment, Management Strategy, Regulatory Standards Relevant Statistics and general business Best Practices

In valuation of businesses, a variety of methods are used to determine the approximate value of businesses. Some of the common methods of valuation include comparing valuation ratios, discounted cash flow techniques (DCF), net tangible assets, internal rate of return (IRR), and many others. The most common method and easiest to implement is to compare valuation ratios for the private company versus ratios of a comparable public company. Finding a company or group of companies of relatively the same size and industry as well as similar business operations and then taking valuation multiples such as the price/earnings ratio can guide to value a private company.

Like with all other services, a Certified Public Accountant (CPA) is required to exercise reasonable skill in performance of his/her work. The degree of skill and care required will depend principally on the nature of the work undertaken. A CPA who undertakes work of an unusually specialised nature, or work of a kind whose negligent performance is particularly liable to cause substantial loss, will usually be taken to have assumed a duty to exercise a higher degree of skill and care than would be appropriate to less demanding work. When it comes to business valuations, a CPA shall perform professional services in compliance with a number of principles.

## 2.0 GENERAL AND ETHICAL STANDARD

### 2.1 Professional Competence

The ICPAU code of Ethics (Statement 5) states that “a member has a duty to maintain a high level of professional competence throughout his/her career. He should not undertake or continue professional work which he is not himself competent to perform unless he obtains such advice and assistance as will enable him competently to carry out his task.” Performing a valuation engagement with professional competence involves possessing special knowledge and skill. A CPA should demonstrate a high level of knowledge of valuation principles and theory and a level of skill in the application of such principles that will enable him or her to identify, gather, and analyze data, consider and apply appropriate valuation approaches and methods, and use professional judgment in developing the estimate of value.

In determining whether he or she can reasonably expect to complete the valuation engagement with professional competence, a CPA should consider, at a minimum, the following:

- The subject entity and subject industry.
- The subject interest.
- The valuation date.
- The Scope of the Valuation engagement, including but not limited to:
  - The purpose of the engagement
  - Any assumptions and limiting conditions (See Appendix I);
  - The applicable standard of value for example, fair value or market value and the applicable premise of value (for example, going concern)
  - The type of report to be issued
  - The intended use and users
  - Any restrictions on the use of the report
- Laws and regulations or other professional standards that apply to the subject interest or to the valuation engagement

**2.2 Nature and Risks of the Valuation Services and Expectations of the Client**

In understanding the nature and risks of the valuation services to be provided, and the expectations of the client, a CPA should consider the matters above, and in addition, at a minimum, the following, the:

(a) Proposed terms of the valuation engagement
(b) Identity of the client
(c) Nature of the interest and ownership rights in the business, business interest, security, or intangible asset being valued, including control characteristics and the degree of marketability of the interest
(d) Procedural requirements of a valuation engagement and the extent, if any, to which procedures will be limited by either the client or circumstances beyond the client's or the CPA's control
(e) Use of and limitations of the report, and the conclusion or calculated value and
(f) Any obligation to update the valuation

**2.3 Objectivity and Conflict of Interest**

The ICPAU Code requires objectivity in the performance of all professional services, including valuation engagements. Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other. The principle of objectivity imposes the obligation to be impartial, intellectually honest, unbiased, unprejudiced, and free from conflicts of interest. The IESBA Code of Ethics provides that where a potential conflict of interest may exist, a CPA should make the disclosures and obtain consent as required by the “Conflicts of Interest" interpretation (See paragraph 220.11 of the Code).

### 2.4 Independence and Valuation

If valuation services are performed for a client for which a CPA or his/her accounting firm also performs other non assurance or assurance engagements (Refer to the IESBA Code), the CPA should evaluate the significance of any self review threats and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

### 2.5 Establishing an Understanding with the Client

A CPA should establish an understanding with the client, preferably in writing, regarding the engagement to be performed. Whereas such an understanding may be concluded orally, a written understanding is preferred as it provides concrete evidence of what was agreed upon between the parties. Regardless of whether the understanding is written or oral, the CPA should modify the understanding if he or she encounters circumstances during the engagement that make it appropriate to modify that understanding.

The understanding with the client reduces the possibility that either the CPA or the client may misinterpret the needs or expectations of the other party. The understanding should include, at a minimum, the nature, purpose, and objective of the valuation engagement, the client’s responsibilities, the CPA’s responsibilities, the applicable assumptions and limiting conditions, the type of report to be issued, and the standard of value to be used.

### 2.6 Assumptions and Limiting Conditions

Assumptions and limiting conditions are common to valuation engagements. Examples of typical assumptions and limiting conditions for a business valuation are provided in appendix I. The assumptions and limiting conditions should be disclosed in the valuation report.

### 2.7 Scope Restrictions or Limitations

A restriction or limitation on the scope of the CPA’s work, or the data available for analysis, may be present and known to the CPA at the outset of the valuation engagement or may arise during the course of a valuation engagement. Such a restriction or limitation should be disclosed in the valuation report.

### 2.8 Using the Work of Specialists in the Engagement to Estimate Value

In performing an engagement to estimate value, a CPA may rely on the work of a third party specialist (for example, a real estate or equipment appraiser). A CPA should note in the assumptions and limiting conditions the level of responsibility, if any, being assumed by the CPA for the work of the third party specialist. At the option of the CPA, the written report of the third party specialist may be included in the CPA’s report.

## 3.0 SCOPE OF SERVICES

These Guidelines establish guidance to CPAs who are engaged to, or, as part of another engagement, estimate the value of a business, business ownership interest, security, or intangible asset (hereinafter collectively referred to in this statement as subject interest). The General and Ethical standards apply to all professional services performed by CPAs. There are different levels of services available in the market to help estimate the value of a business. CPAs who provide business valuation services offer either a valuation engagement or a calculation engagement. A CPA may therefore express either a Conclusion of Value or a Calculated Value. Valuation Services include:

### 3.1 Valuation Engagement

A Valuation Engagement requires that a CPA applies valuation approaches or methods deemed in the member's professional judgment to be appropriate under the circumstances and results in a Conclusion of Value which may be either a single amount or a range. A CPA performs a valuation engagement when:

(1) the engagement involves estimating the value of a subject interest and
(2) the CPA estimates the value and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances.

### 3.2 Calculation Engagement

A Calculation Engagement occurs when the client and member agree to specific valuation approaches, methods, and the extent of selected procedures and results in a Calculated Value. A CPA performs a calculation engagement when:

(1) he/she and the client agree on the valuation approaches and methods the CPA will use and the extent of procedures the CPA will perform in the process of calculating the value of a subject interest (these procedures will be more limited than those of a valuation engagement) and
(2) the CPA calculates the value in compliance with the agreement. The CPA expresses the results of these procedures as a calculated value. The calculated value is expressed as a range or as a single amount. It is important to note that a calculation engagement does not include all of the procedures required for a valuation engagement.

## 4.0 VALUATION ENGAGEMENT

In performing a valuation engagement, a CPA should analyze the subject interest, consider and apply appropriate valuation approaches and methods and prepare as well as maintain appropriate documentation.

## 4.1 Analysis of the Subject Interest

The analysis of the subject interest will assist a CPA in considering, evaluating, and applying the various valuation approaches and methods to the subject interest. The nature and extent of the information needed to perform the analysis will depend on, at a minimum, the following:

- Subject to be valued;
- Interest to be valued;
- Valuation date;
- Purpose and use of the valuation;
- Applicable standard of value;
- Applicable premise of value;
- Intended users;
- Valuation approaches or methods;
- Assumptions, limiting conditions and scope limitations;
- Ownership size, nature, restrictions and agreements;
- Sources of information; and
- Other factors which may include applicable laws and regulations or professional standards that may influence value when appropriate in the opinion of the CPA.

In analyzing the subject interest, a CPA should consider financial and nonfinancial information. The type, availability, and significance of such information vary with the subject interest.

## 4.2 Non-financial Information

The CPA should, as available and applicable to the valuation engagement, obtain sufficient non-financial information to enable him or her to understand the subject entity, including the following:

- Nature, background, and history
- Available Facilities
- Organizational structure
- Management team (which may include senior officers, directors, and key employees)
- Classes of equity ownership interests and rights attached thereto
- Products or services, or both
- Economic environment
- Geographical markets
- Industry markets
- Key customers and suppliers
- Level of Competition
- Business risks
- Strategy and future plans
- Governmental or regulatory environment

### 4.3 Ownership Information

The CPA should obtain, where applicable and available, ownership information regarding the subject interest to enable him or her to:

- determine the type of ownership interest being valued and ascertain whether that interest exhibits control characteristics.
- analyze the different ownership interests of other owners and assess the potential effect on the value of the subject interest.
- understand the classes of equity ownership interests and rights attached thereto.
- understand the rights included in, or excluded from, each intangible asset.
- understand other matters that may affect the value of the subject interest, such as the following:

  - For a business, business ownership interest, or security: Shareholder agreements, partnership agreements, operating agreements, voting trust agreements, buy-sell agreements, loan covenants, restrictions, and other contractual obligations or restrictions affecting the owners and the subject interest.
  - For an intangible asset: Legal rights, licensing agreements, sublicense agreements, nondisclosure agreements, development rights, commercialization or exploitation rights, and other contractual obligations.

### 4.4 Financial Information

The CPA should obtain, where applicable and available, financial information on the subject entity such as the following:

- Historical financial information (including annual and interim financial statements and key financial statement ratios and statistics) for an appropriate number of years
- Prospective financial information (for example, budgets, forecasts, and projections)
- Comparative summaries of financial statements or information covering a relevant time period
- Comparative common size financial statements for an appropriate number of years
- Economic outlook in general and the condition and outlook of the specific industry in particular;
- Adjusted book value of the interest to be valued and the current financial condition of the enterprise;
- Earning capacity of the enterprise;
- Dividend policy and dividend paying capacity of the enterprise;
- Income tax returns and related information for an appropriate number of years
- Information on compensation of owners including benefits and personal expenses
- Management responses regarding the following:
  - Contingent or off-balance-sheet assets or liabilities
  - Information on prior sales of company stock
- Information, if any, on goodwill or other item of intangible nature;

- Prior sale of interests in the enterprise being valued;
- Size of interest to be valued and its control, liquidity and marketability characteristics;
- The market price of other interests or enterprises engaged in the same or a similar line of business having interests actively traded in a free and open market;
- Hypothetical conditions appropriate for the circumstances; and
- Any other information deemed to be relevant.

A CPA should read and evaluate the information to determine that it is reasonable for the purposes of the engagement.

### 4.5 Jurisdictional Exception

Where this guidance differs from published governmental, judicial, accounting, or other authority that specifies valuation development or reporting procedures, in that event, a CPA should follow the applicable published authority or stated procedures.

### 4.6 Valuation Approaches and Methods

Valuation methods are commonly categorized into the asset-based, market, income, or a combination of these approaches. Professional judgment is used to select the approaches and the methods that best indicate the value. Rules of thumb are acceptable as reasonableness checks, but should not be used as stand-alone method

### 4.7 Asset-based Approach and Cost Approach

A frequently used method under the asset approach is the adjusted Net Asset Value (NAV) method. When using the adjusted net asset method in valuing a business, business ownership interest, or security, a CPA should consider, as appropriate, the following information related to the premise of value:

- Identification of the assets and liabilities
- Value of the assets and liabilities (individually or in the aggregate)
- Liquidation costs (if applicable)

This method has regard to the value of the company's assets less the value of its liabilities at the relevant time. This should reflect the true worth of the business after providing for all the outside present as well as potential liabilities. The net asset value so derived can then be divided by the number of the company's shares to arrive at the value per share. This method of valuation could be appropriate where the value of the company, as a going concern, is largely determined by the assets that it owns, such as where the company is a property-holding enterprise, or if the company is in liquidation.

When using methods under the cost approach to value intangible assets, the CPA should consider the type of cost to be used (for example, reproduction cost or replacement cost), and, where applicable, the appropriate forms of depreciation and obsolescence and the remaining useful life of the intangible asset.

### 4.8 Income Approach

The income approach relies upon the economic principle of expectation: the value of business is based on the expected economic benefit and level of risk associated with the investment. Income based valuation methods determine fair market value by dividing the benefit stream generated by the subject or target company multiplied by a discount or capitalization rate. The discount or capitalization rate converts the stream of benefits into the present value. Thus, if the company is in a line of business in which consumer demand is on the increase, this will impact on its valuation beyond their static net asset value at a moment in time. There are several different income methods, including capitalization of earnings or cash flows, discounted future cash flows ("DCF"), and the excess earnings method (which is a hybrid of asset and income approaches). However, the two frequently used methods are the capitalization of benefits method and the discounted future benefits method. A discount rate or capitalization rate is used to determine the present value of the expected returns of a business. The discount rate or capitalization rate may be defined as the yield necessary to attract investors to a particular investment, given the risks associated with that investment.

A capitalization rate is applied in methods of business valuation that are based on business data for a single period of time. For example, valuations of properties that generate cash flows, a capitalization rate may be applied to the net operating income (NOI) (i.e., income before depreciation and interest expenses) of the property for the trailing twelve months. When applying the Capitalization of benefits (for example, earnings or cash flows) method, a CPA should consider a variety of factors, including but not limited to, the following:

(a) Normalization adjustments
(b) Non recurring revenue and expense items
(c) Taxes
(d) Capital structure and financing costs
(e) Appropriate capital investments
(f) Non cash items
(g) Qualitative judgments for risks used to compute discount and capitalization rates
(h) Expected changes (growth or decline) in future benefits (for example, earnings or cash flows)

A variant of the income approach is the discounted cash-flow (DCF) method, which entails valuing the business in question on the basis of its forecast cash flows, discounted to present values through application of a discount factor which normally depends on economic variables such as interest rates, inflationary levels among others. This method therefore estimates the value of an asset based on its expected future cash flows. When applying this method, a CPA should consider in addition to the items listed above, the following;

(a) Forecast or projected assumptions
(b) Forecast or projected earnings or cash flows
(c) Expected terminal value

For an intangible asset, a CPA should also consider, where relevant, the following:

(a) Remaining useful life
(b) Current and anticipated future use of the asset
(c) Rights attributable to the asset
(d) Position of the asset in its life cycle
(e) Appropriate discount rate for the asset
(f) Appropriate capital or contributory asset charge, if any
(g) Research and development or marketing expenses needed to support the asset in its existing state
(h) Allocation of income (for example, incremental income, residual income, or profit split income) to the asset
(i) Whether any tax amortization benefit would be included in the analysis
(j) Market royalties and
(k) Relief from royalties

### 4.9 Market Approach

In valuing a business, business ownership interest, or security, the market approach may be applied. This approach may take the form of; Guideline public company method; Guideline company transactions method or Guideline sales of interests in the subject entity, such as business ownership interests or securities. The Guideline public company approach determines the value of a firm by observing the prices of similar companies (called "guideline companies") sold in the market. Those sales could be shares of stock or sales of entire firms. The observed prices serve as valuation benchmarks. From the prices, one calculates price multiples such as the price-to-earnings or price-to-book ratios—one or more of which used to value the firm. For example, the average price-to-earnings multiple of the guideline companies is applied to the subject firm's earnings to estimate its value.

Many price multiples can be calculated. Most are based on a financial statement element such as a firm's earnings (price-to-earnings) or book value (price-to-book value) but multiples can be based on other factors such as price-per-subscriber. The price-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio is also called the price multiple or the earnings multiple.

Three frequently used market approach valuation methods for intangible assets are as follows:

- Comparable uncontrolled transactions method (which is based on arm's-length sales or licenses of guideline intangible assets)
- Comparable profit margin method (which is based on comparison of the profit margin

**NOTE**

- Different valuation approaches are used for differing purposes. A case in point is valuation of shares in a loss making company may be approached differently from a company under liquidation, schemed for a merger/acquisition or involved in tax disputes.
- Information on assessing the inherent value of equity taking into account the sources of value creation, time horizon over which the company firm enjoys competitive advantages over its rivals and various categories of investments would be helpful.

### 4.10 Valuation Adjustments

During the course of a valuation engagement, a CPA should consider whether valuation adjustments (discounts or premiums) should be made to a pre-adjustment value. Examples of valuation adjustments for valuation of a business, business ownership interest, or security include a discount for lack of marketability or liquidity and a discount for lack of control. An example of a valuation adjustment for valuation of an intangible asset is obsolescence.
When valuing a controlling ownership interest under the income approach, the value of any non-operating assets, non-operating liabilities, or excess or deficient operating assets should be excluded from the computation of the value based on the operating assets and should be added to or deleted from the value of the operating entity. When valuing a non-controlling ownership interest under the income approach, the value of any non-operating assets, non-operating liabilities, or excess or deficient operating assets may or may not be used to adjust the value of the operating entity depending on the a CPA's assessment of the influence exercisable by the non-controlling interest. In the asset-based or cost approach, it may not be necessary to separately consider non-operating assets, non-operating liabilities, or excess or deficient operating assets.



### 4.11 Subsequent Events

The valuation date is the specific date at which a CPA estimates the value of the subject interest and concludes on his or her estimation of value. Generally, a CPA should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that could affect the value may occur subsequent to the valuation date; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date.

The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date. In situations in which a valuation is meaningful to the intended user beyond the valuation date, the events may be of such nature and significance as to warrant disclosure (at the option of the CPA) in a separate section of the report in order to keep users informed. Such disclosure should clearly indicate that information regarding the events is provided for informational purposes only and does not affect the determination of value as of the specified valuation date.

### 4.12 Documentation

Documentation is the principal record of information obtained and analyzed, procedures performed, valuation approaches and methods considered and used, and the conclusion of value. The quantity, type, and content of documentation are matters of CPA's professional judgment. A CPA should retain documentation for a sufficient time period to comply with legal, regulatory, and professional requirements. Documentation may include the following:

- Information gathered and analyzed to obtain an understanding of matters that may affect the value of the subject interest
- Assumptions and limiting conditions
- Any restriction or limitation on the scope of the CPA's work or the data available for analysis
- Basis for using any valuation assumption during the valuation engagement
- Valuation approaches and methods considered and used including the rationale and support for their use
- If applicable, information relating to subsequent events considered by the CPA
- Other information considered relevant to the engagement by the CPA

## 5.0 THE VALUATION REPORT

A valuation report is a written or oral communication to the client containing the conclusion of value or the calculated value of the subject interest. Such reports could take the form of either a detailed report or a summary report (as in appendix II) for a valuation engagement and a calculation report for a calculation engagement.

The detailed report is structured to provide sufficient information to permit intended users to understand the data, reasoning, and analyses underlying the CPA's conclusion of value. A detailed report should include, as applicable, the following sections:

- Letter of transmittal
- Table of contents
- Introduction
- Sources of information
- Analysis of the subject entity and related non-financial information
- Financial statement or financial information analysis
- Valuation approaches and methods considered and used
- Valuation adjustments
- Non-operating assets, non-operating liabilities, and excess or deficient operating assets (if any)

- Representation of the CPA
- Reconciliation of estimates and conclusion of value
- Qualifications of the CPA
- Appendixes and exhibits

### 5.1 Introduction

This section should provide an overall description of the valuation engagement. The information in the section should be sufficient to enable the intended user of the report to understand the nature and scope of the valuation engagement, as well as the work performed. The introduction section may include, among other things, the following information:

- Identity of the client
- Purpose and intended use of the valuation
- Intended users of the valuation
- Identity of the subject entity
- Description of the subject interest
- Whether the business interest has ownership control characteristics and its degree of marketability
- Valuation date
- Report date
- Type of report issued (namely, a detailed report)
- Applicable premise of value
- Applicable standard of value
- Assumptions and limiting conditions (alternatively, these often appear in an appendix)
- Any restrictions or limitations in the scope of work or data available for analysis
- Any hypothetical conditions used in the valuation engagement, including the basis for their use
- If the work of a specialist was used in the valuation engagement, a description of how the specialist's work was relied upon
- Disclosure of subsequent events in certain circumstances
- Any application of the jurisdictional exception
- Any additional information the CPA deems useful to enable the user(s) of the report to understand the work performed

### 5.2 Sources of Information

This section of the report should identify the relevant sources of information used in performing the valuation engagement. It may include, among other things, the following:

- For valuation of a business, business ownership interest, or security, whether and to what extent the subject entity's facilities were visited
- For valuation of an intangible asset, whether the legal registration, contractual documentation, or other tangible evidence of the asset was inspected
- Names, positions, and titles of persons interviewed and their relationships to the subject interest

- Financial information
- Tax information
- Industry data
- Market data
- Economic data
- Other empirical information
- Relevant documents and other sources of information provided by or related to the entity

Where the financial information includes financial statements that were reported on (audit, review, compilation, performed under the International Standards on Auditing (ISAs) by a CPA's firm, the valuation report should disclose this fact and the type of report issued. If the CPA or the CPA's firm did not audit, review or carry on a compilation engagement under the ISAs, the CPA should disclose the fact as well and should also state that he/she assumes no responsibility for the financial information.

The financial information may be derived from or may include information derived from tax returns. With regard to such derived information and other tax information, the CPA should identify the tax returns used and any existing relationship between the CPA and the tax preparer. If the CPA or the CPA's firm did not audit, review, compile financial information under the ISAs derived from tax returns that is used during the valuation engagement, the CPA should so state and should also state that the CPA assumes no responsibility for that derived information.

If the financial information used was derived from financial statements prepared by management that were not the subject of an audit, review or compilation engagement performed under the ISAs, the valuation report should do the following:

- Identify the financial statements
- State that, as part of the valuation engagement, the CPA did not audit, review or compile under the ISAs and assumes no responsibility for that information

### 5.3 Analysis of the Subject Entity and Related Non-financial Information

A CPA should include a description of the relevant non-financial information identified.

### 5.4 Financial Statement or Financial Information Analysis

This section should include a description of the relevant information Such description may include the following: the rationale underlying any normalization or control adjustments to financial information; comparison of current performance with historical performance and comparison of performance with industry trends and norms, where available

### 5.5. Valuation Approaches and Methods Considered

This section should state that the CPA has considered the valuation approaches

### 5.6 Valuation Approaches and Methods Used

In this section, the CPA should identify the valuation methods used under each valuation approach and the rationale for their use.

### 5.7 Valuation Adjustments

This section should

(a) identify each valuation adjustment considered and determined to be applicable, for example, discount for lack of marketability,
(b) describe the rationale for using the adjustment and the factors considered in selecting the amount or percentage used, and
(c) describe the pre-adjustment value to which the adjustment was applied

### 5.8 Non-Operating Assets and Excess Operating Assets

When the subject interest is a business, business ownership interest, or security, the valuation report should identify any related non-operating assets, non-operating liabilities, or excess or deficient operating assets and their effect on the valuation.

### 5.9 Representation of the CPA

Each written report should contain the representation of the CPA. This is a section of the report wherein a CPA summarizes the factors that guided his or her work during the engagement. Examples of these factors include the following:

(a) The fact that the analyses and conclusion of value included in the valuation report are subject to the specified assumptions and limiting conditions and they are the personal analyses and conclusion of value of the CPA.
(b) The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the CPA believes to be reliable (any exceptions should be noted). The CPA has not performed any corroborating procedures to substantiate that data.
(c) The valuation engagement was performed in accordance with the Guidelines as issued by the Institute of Certified Public Accountants of Uganda for Valuation of Businesses.
(d) The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
(e) The CPA's compensation is fee-based or is contingent on the outcome of the valuation.
(f) The CPA used the work of one or more outside specialists to assist during the valuation engagement.
(g) The CPA has no obligation to update the report or the conclusion of value for information that comes to his or her attention after the date of the report.
(h) The CPA and, if applicable, the person(s) assuming responsibility for the valuation should sign the representation in their own name(s).

### 5.10 Representations Regarding Information provided to the CPA

It may be appropriate for the CPA to obtain written representations regarding information that the subject entity's management provides to the CPA for purposes of his or her performing the valuation engagement. The decision whether to obtain a representation letter is a matter of judgment for the CPA.

### 5.11 Qualifications of the CPA

The report should contain information regarding the qualifications of the CPA.

### 5.12 Conclusion of Value

This section should present a reconciliation of the CPA's estimate or various estimates of the value of the subject interest. In addition to a discussion of the rationale underlying the conclusion of value, this section should include the following or similar statements:

(a) A valuation engagement was performed, including the subject interest and the valuation date.
(b) The analysis was performed solely for the purpose described in this report, and the resulting estimate of value should not be used for any other purpose.
(c) The valuation engagement was conducted in accordance with Guidelines issued by the Institute of Certified Public Accountants of Uganda for Valuation of Businesses.
(d) A statement that the estimate of value resulting from a valuation engagement is expressed as a conclusion of value.
(e) The scope of work or data available for analysis is explained, including any restrictions or limitations.
(f) A statement describing the conclusion of value, either a single amount or a range.
(g) The conclusion of value is subject to the assumptions and limiting conditions and to the CPA's representation.
(h) The report is signed in the name of the CPA or the CPA's firm.
(i) The date of the valuation report
(j) The CPA has no obligation to update the report or the conclusion of value for information that comes to his or her attention after the date of the report.

### 5.13 Appendixes and Exhibits

Appendixes or exhibits may be used for required information and any other information that supplements the detailed report. Often, the assumptions and limiting conditions and the CPA's representation are provided in appendixes to the detailed report.

## Appendix I: Illustrative List of Assumptions and Limiting Conditions for a Business Valuation

The valuation report or calculation report should include a list of assumptions and limiting conditions under which the engagement was performed. This appendix includes an illustrative list of assumptions and limiting conditions that may apply to a business valuation as seen below.

1. The conclusion of value (or the calculated value) arrived at herein is valid only for the stated purpose as of the date of the valuation.
2. Financial statements and other related information provided by [Name of Client Company] or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. [Accounting Firm] has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.
3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
4. We do not provide assurance on the achievability of the results forecasted by [Name of Client Company] because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.
5. The conclusion of value (or the calculated value) arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
6. This report and the conclusion of value (or the calculated value) arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value (or the calculated value) are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The stated valuation represents the considered conclusion of value (or the calculated value) of [Accounting Firm], based on information furnished to them by [Name of Client Company] and other sources.
7. Neither all nor any part of the contents of this report (especially the conclusion of value [or the calculated value], the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any

other means of communication without the prior written consent and approval of [Accounting Firm].

8. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of [Accounting Firm] unless previous arrangements have been made in writing.
9. [Accounting Firm] is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. [Accounting Firm] does not conduct or provide environmental assessments and has not performed one for the subject property.
10. [Accounting Firm] has not determined independently whether [Name of Client Company] is subject to any present or future liability relating to environmental matters. [Accounting Firm]'s valuation takes no such liabilities into account, except as they have been reported to [Accounting Firm] by [Name of Client Company] or by an environmental consultant working for [Name of Client Company], and then only to the extent that the liability was reported to us in an actual or estimated amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, [Accounting Firm] has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.
11. No change of any item in this report shall be made by anyone other than [Accounting Firm], and we shall have no responsibility for any such unauthorized change.
12. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future National legislation, including any environmental or ecological matters or interpretations thereof.
13. If prospective financial information approved by management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.
14. We have conducted interviews with the current management of [Name of Client Company] concerning the past, present, and prospective operating results of the company.
15. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

**Appendix II: Sample Summary Valuation Report**

To: The Directors
XXX Limited
Kampala

We have performed the procedures enumerated below, which were agreed to by the directors of XXX Limited on the Business Valuation of the company as of April 2017. The directors of XXX Limited are responsible for the information provided to us for purposes of this valuation. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We reviewed accounting records of company including its assets and liabilities taken over during acquisition.
2. Discussed with the management business strategies of the company for future
3. Reviewed the purchase agreement of XXX Limited.
4. Benchmarked the company with the rest of the companies in the industry including business competitiveness; and
5. We obtained management representations in regard to the information provided to us.

Our findings indicate that the information available as a newly acquired company, the Asset Valuation Model is the most appropriate basis of valuation. Consequently the value of the business (Shares) is **Shs 55,000,000 (Fifty Five Million Only).** The Asset based valuation treats the value of business as the sum of its various assets, tangible and intangible, less its liabilities, fixed and contingent.

Accordingly, we do not express an opinion or conclusion on information used in this valuation. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of directors and managements of XXX Limited, and is not intended to be and should not be used by anyone other than the specified parties.

**CPA T. K.**
XYZ
Certified Public Accountants
Kampala
8 June 2017

**Appendix III: URSB Certificate on Transfer of Share Stock**

UGANDA REGISTRATION
SERVICES BUREAU

**To: The Registrar of Companies**
**P. O. Box 6848**
**Kampala**

**CERTIFICATE ON TRANSFER OF SHARE STOCK**

**THE STAMP DUTY ACT, 2014**

**(as amended)**

I hereby certify that to the best of my knowledge and belief,

a) The transaction effected by the transfer of………………………………….Shares in…………………………………………………………………Limited dated of ……………………………………….20…………represents a bonafide sale between a willing buyer and willing purchaser.

b) The value of one ordinary/ preference share in ………………………………………………………………...…………Limited on the ………………………. of 20….. was shillings………………………………………. ……………………(words)……………………………………………………………………………………………………… …………………………….………………

Dated at …………………..this …………………………..day of……………….. 20………

Names : ……………………….…………………………..……

Signature : …………………………………………………………..

Stamp of the Auditor : …………………..……..………………….……………..

## Appendix IV: References

1. American Institute of Certified Public Accountants. (2015, August). *Statements on Standards for Valuation Services*.
2. National Association of Certified Valuators and Analysts. (2015). *Professional Standards.*
3. Reilly, R.F. (2007, September 1). *Professional Guidance in Business Valuation: Applying SSVS1.*