



Plant and Machinery Valuation

Key Factors To Be Considered In Valuing Plant
And Machinery By Income Approach

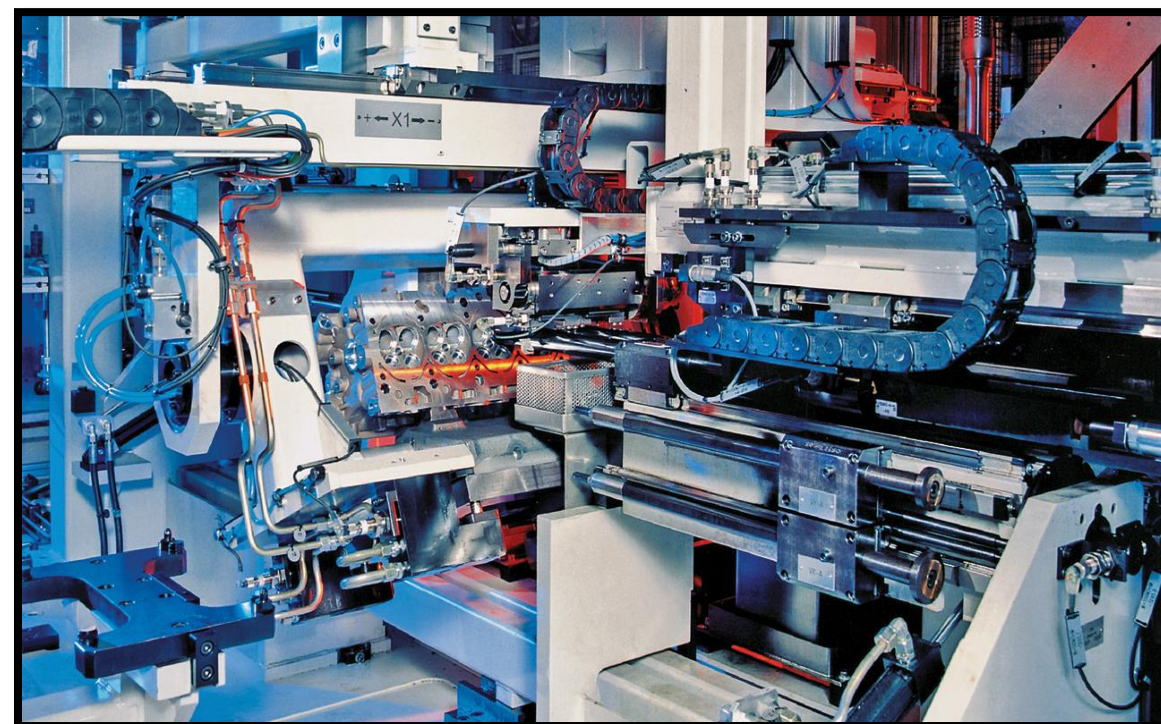
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Introduction

What is Plant, Machinery and Equipment?





PME Valuation Approaches

**Valuation of PME
Involves Three
Basic Approaches**



Market Approach

Cost Approach

Income Approach



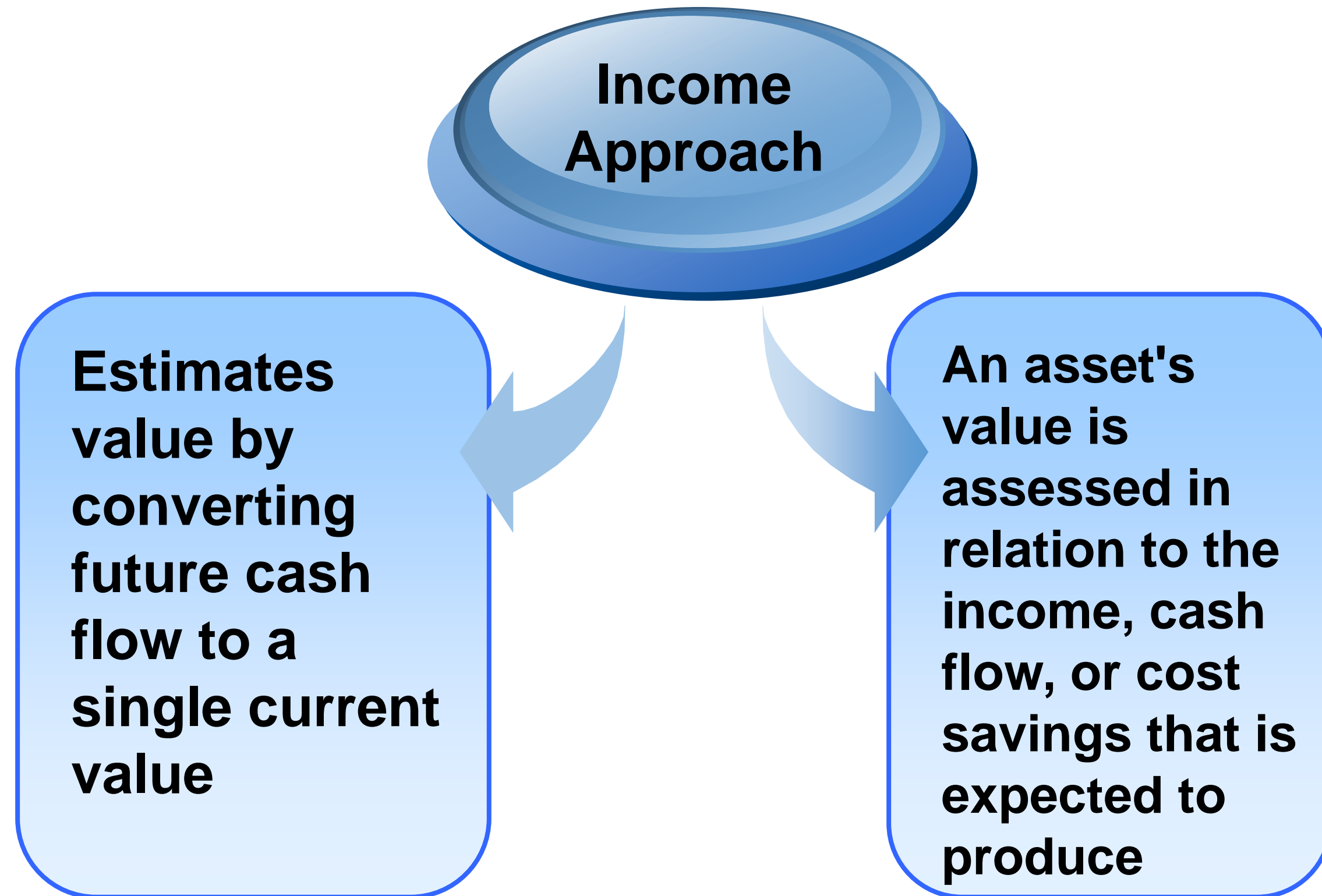
PME Valuation Approaches

Factors to consider before choosing appropriate valuation approach/method

- ➔ Availability of reliable information
- ➔ Nature of the asset
- ➔ Purpose of valuation
- ➔ Type of PME to be valued



Income Approach





Key Factors to be Considered in Valuing PME by Income Approach

- ➔ Relevant for investment properties having utility, marketability and self liquidity.
 - This approach measure the full obsolescence.

- ➔ Assets known as “Business Enterprise” i.e. Working Capital, fixed asset and intangible assets.
 - will require a distribution of the total value per the contributing assets
 - Value of PME is overstated



Key Factors to be Considered in Valuing PME by Income Approach

- ➔ The business enterprise is valued based on its future income potential.
 - PME economic life span needs to be determined or the terminal value in the end of useful life is known

- ➔ Identified the discount rate
 - The annualized net income is converted into an estimate of present value through the process of capitalization
 - Expected yield on investment in different type of industry is different.
 - the risks and returns associated with PME are higher



Strengths and Weaknesses of Income Approach

Strengths

- ❖ Best measurement of total depreciation of all assets
- ❖ Recognition of economics
- ❖ Reflection of the logic and rational used in virtually all business decisions
- ❖ Ability to project the full amount of economic obsolescence and measure the value of all assets in aggregate
- ❖ Valuation of a going concern business enterprise where an aggregate overview of the contribution of each assets, working capital, fixed or intangible, is called for as a whole.
- ❖ By using this approach, the remaining useful life of the subject PME plays an important role in the analysis.



Strengths and Weaknesses of Income Approach

Weaknesses

- ❖ Cannot segregate specific assets in the process of valuation.
- ❖ Very difficult to identify the value of specific assets without some sort of arbitrary allocation.
- ❖ Subjectivity of income projections and rates of return



THANK YOU