DRAFT METHOD FOR VALUATION OF SMALL LONG-TERM FIXED ASSETS

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Abstract: The aim of our paper was to create a methodology for determining the value of small tangible fixed assets. For this, a flat-rate valuation method is used. The compilation of the instrument for determining the value of small tangible fixed assets is based on observation of the Czech market in this type of goods. The method is applied to the model association XYZ, which was in the research before its transformation into a limited liability company. The results presented in the form of an amortization scale can be applied to other types of valued assets, provided all requirements are met.

Keywords: Small tangible fixed assets, lump sum method, amortization scale, association, limited liability company, property valuation, property classification

1 Introduction

In this paper we will deal with the valuation of small tangible fixed assets (hereinafter referred to as "STFA") of a model association (hereinafter referred to as "XYZ Association") of two individuals operating together in the field of hair and cosmetics products sales with a focus on hair and cosmetics studies. The business model of the XYZ Association is the so-called mail-order wholesale. The Association is defined in Act No. 89/2012 Coll. of the Civil Code (hereinafter referred to as the "CC"). The CC deals with this type of relationship in § 2716 - § 2755 (Czech Republic, 2012a). Generally, the assets of an enterprise are valued with regard to its purpose. Most often this value has a meaningful ability directly for its owners or partners. It is also an integral part of accounting, for example in its accounting depreciation. In our case we deal with its valuation in order to transform the association into a limited liability company (LLC). Information on how this transformation will change the conditions for the function of a newly formed company is readily ascertained in Act No. 90/2012 Coll. on Business Companies and Cooperatives (Business Corporations Act) (Czech Republic, 2012b).

We will value the STFA of the XYZ Association using the flat-rate valuation method we have created.

2 Literature research

The formation of the association is subject to a contractual obligation of two or more natural persons. The number of members in the association is neither closed nor limited by this obligation; during the very existence of the association, other natural persons may enter it as well as leave the association. The advantage of the association is that its establishment does not require a contract drawn up in writing. The oral agreement of the members of the Association has the same weight. However, in the event that property is pooled, it must be listed (Bezouška, Piechowiczová, 2013).

The association does not have legal personality, so it is also incapable of legal acts and duties, it cannot own, sell or donate anything. Assets acquired in the course of the joint activity of its members become co-owned by all members of the Association. In the case of legal relations, the individual members of the Association enter them separately. The Association is not subject to any registration of its existence (Nývltová, Marinič, 2010).

In the event that an association is established by a contractual obligation of two or more natural persons, these persons shall jointly contribute to the achievement of the common goal by their activity or by the deposit of property. The individual shares of each member's assets should be included in the contractual obligation. If this is not the case, the shares of all members in the property are the same (Horáková, 2014).

Pursuant to Section 2727 (1) of Act No. 89/2012 Coll. no member of the Association may, without the consent of the other members, do on his own or another account anything that is competitive in relation to the common purpose. If this happens, other members may demand that the member abstain from such conduct (Czech Republic, 2012a).

Members of the Association are liable to third parties jointly and severally. Since the reason for the XYZ STFA valuation is its transformation into a capital company LLC with legal personality, it should be noted that according to Hobza et al. (2015) guarantees this type of legal entity unlimited for its obligations. However, individual members of the LLC only guarantee up to the amount of the difference between the paid deposit obligation and the state recorded in the Commercial Register at the time when they were invited by the creditor to perform. On the other hand, in a joint stock company (JSC), shareholders are not personally liable for any liabilities, they only have a payment obligation.

Property valuation is regulated by Act No. 151/1997 Coll. Act on Valuation of Property and on Amendment of Some Acts (Act on Valuation of Property). Pursuant to Section 2 (1) of Act No. 151/1997 Coll. property and service are valued at the usual price, unless this law provides for another method of valuation. For the purposes of this Act, the usual price is the price that would have been achieved by selling the same or similar property or providing the same or similar service in the ordinary course of trade in the Czech Republic on the valuation date (Czech Republic, 1997). All circumstances affecting the price are considered, but the effects of the extraordinary circumstances of the market, the personal circumstances of the seller or buyer, and the influence of special popularity are not reflected in the price (Vrbka et al., 2019).

The asset valuation method (Stehel et al., 2019) may be used to measure items on the assets side of the balance sheet. These items can be valued on the basis of historical prices, based on the cost of restoring these items, on the basis of cost savings and on the basis of market values (Mařík et al., 2018).

Another method by which the company's assets can be valued is the book value described by Jan and Ou (2012). They claim that companies with negative book value are able to survive for a number of years before bankruptcy. Maliené et al. (1999) introduces a method of valuing a company's assets using the multi-criteria method. Using this method, a large number of criteria are taken into account, which are compared with each other between the assets being valued and their value determined on the basis of those criteria. Maliené (2011) also shows in real estate prices that their multi-criteria pricing is an excellent comparison tool. Zavadskas et al. (2001) claim that these valuation methods have become very important in international practice. Multicriteria methods are classified as modern comparative property valuation methods.

According to Azhou (2016), the structure of assets has a great influence on the value creation of the company. Bucataru and Tabara (2014) state that a very positive effect on the increase in the value of a company is the increase in the proportion of its intangible assets.

Jakoubek and Brabenec (2012) state that when a tangible asset is used to generate an intangible asset, its intangible value is usually included in its value as a tangible asset. As a rule, it is not necessary to determine the separate value of intangible assets. The only case may be the trade in intangible assets between interconnected enterprises.

Kulikova et al. (2016) claims that some companies intentionally or unintentionally misrepresent tangible assets in order to increase the enterprise's value in its financial statements. In order to eliminate these errors in accounting, it also proposed a

methodology that should make it easier for companies to determine the value of their assets in the financial statements.

The composition of tangible assets varies in each company according to its form. Grechenyuk et al. (2015) conducted research in this area on a sample of Russian joint stock companies. Their conclusions lead to the fact that there is a large difference in the structure of tangible assets between publicly tradable and publicly non-tradable joint-stock companies. They also note that the variability in the availability of individual items of tangible assets, especially short-term and long-term, varies in different types of companies. Bacataru and Tabara (2014) add that these changes are the result of the changes the world economy has undergone in recent years.

The composition of the company's assets can also serve as an indicator of its performance. This is an indicator that is evident to both the company's customers and its owners or potential investors (Majduchova, Kl'ucikova, 2014).

Kolarova et al. (2013) conducted a research into the correct classification of individual movable assets of companies by means of a questionnaire survey and notes that companies in the Czech Republic are not always able to correctly classify movable assets into the appropriate category in accounting. She therefore proposes the development of a methodology that would clearly define these items.

According to Mykolaitiene et al. (2010) it is very important for every company to effectively manage investments in tangible fixed assets. Company managers should have a constant overview of the current physical condition of this asset and its depreciation. Based on this information, it is easier to determine whether a given fixed asset is still able to generate economic value for the enterprise (Klieštik et al., 2018).

Jáčová and Horák (2015) dealt with the analysis of the impact of the sale of tangible assets on the performance of the company. However, it did not have to be a simple sale of assets but also their disposal from use after accounting depreciation or loss of functionality. If, for any reason, these assets can no longer be used, they can be excluded from tangible fixed assets. For this reason, they also focused on the process of liquidation and settlement of claims related to the disposal of these assets. The method of managing tangible assets also affects the tax burden and the performance of the enterprise.

Since it is often necessary to valuate tangible assets for the purpose of business transformation, some authors dealt with the course and methods of individual types of transformation. For example, Mendez et al. (2018) dealt with the transformation of companies into different types of other legal forms as well as forms without legal personality in Spain. Pospíšil and Vomáčková (2017) report that, for example, in the Czech Republic in 2013 there were dozens of different types of transformations of different companies. They also claim that 96% of these were merely business reorganisations. The main problem they point out is that during these transformations the faithful representation of the financial position of the successor company is significantly impaired and therefore they propose to revise the Czech regulation for the transformation of the company.

Johnson et al. (2012) point out that the legal transformation of a company is one thing but also point out that it is often necessary to transform the deep-rooted ways and practices that the company was still operating in its old form to increase the profits of the successor company. They also state that, according to the current market situation, it is clear that some companies entering the legal transformation process are not ready for this "mental" transformation.

Brabenec (2010), dealt with corporate-level discounts in mergers and acquisitions.

The aim of the paper is to identify the specifics of determining the STFA value of an enterprise on the example of XYZ.

3 Materials and methods

The decisive date for the valuation is 31st December 2017. The XYZ Association consists of two natural persons who founded the Association on 1st January 2008 by the Association Agreement. The need for STFA valuation stems from the intention to transform XYZ into a limited liability company. This valuated STFA will be incorporated into the newly created LLC.

Newly created LLC will fully build on the activities of the previous XYZ association with the same business model. Employees, assets and liabilities will be transferred, business will be maintained, as will the entire customer portfolio. In our contribution we will deal with the partial valuation in the whole transaction, namely the STFA valuation. For the purpose of making this paper, XYZ provided all necessary data on the status of its STFA, which was still in use at the valuation date, together with proof of purchase with the date and amount of the purchase price.

In order to determine the value of these STFA items, a so-called Amortization Scale will be created. The development of this scale will be based on the study of several expert opinions and expert articles dealing with the determination of the price of STFA. A total of 36 publications will be available, some of which are also used as a literary basis for this paper. 11 expert opinions dealing with the evaluation of STFA were also found. To create an amortization scale, it will first be necessary to track a set of several STFA items of different ages and wear rates. This tracking will be done through the advertising servers with used goods. First, information about the date the advertisement was placed on the server will be recorded for these items. At the time of sale of one of the STFA items, the last advertised price will be recorded, assuming the sale for that last price and the date the expected sale will be made to a table. With this information, it will also be able to determine how long each item has been offered through the advertising server. The last indication will be the purchase price of the Association's assets. Based on the analysis and comparison of all this collected information, our amortization scale will be compiled. Since the oldest STFA, which is used by XYZ at the valuation date (ie as of 31st January 2017), is dated 2010, so the items of STFA with a maximum age of seven years will be tracked through advertising servers.

When designing a amortization scale, the main price-determining factors will be the age and wear rate.

To determine the individual ranges of the price decrease according to age and the purchase price for the creation of the amortization scale, a matrix of results will be created on which this scale will be based. The results matrix is shown in table 1.

Tab. 1: Matrix for the creation of a amortization scale

Age in years	Price category				Total number of tangible fixed assets
	Up to CZK 5,000	CZK 5,001-10,000	CZK 10,001-15,000	CZK 15,001 and more	
1	44	34	41	51	**170**
2	38	39	45	44	**166**
3	43	26	52	29	**150**
4	32	44	39	18	**133**
5	36	33	28	16	**113**
6	34	49	23	13	**119**
7	31	25	18	11	**85**

Source: Own.

Table 1 shows the number of STFA according to its age and price category, which will enter the creation of the amortization

scale. Price categories will be set at CZK 5,000 each. This interval is determined on the basis of the purchase prices of STFA in use by XYZ. Individual STFA items will be of similar age, wear and parameters as STFA items to which the resulting amortization scale will be subsequently applied.

The items for creating the matrix will mainly include small electronics, computer equipment and garden equipment, so that the resulting amortization scale corresponds as closely as possible to the specific type of STFA, which we will subsequently evaluate.

It is therefore a flat-rate valuation method using the projected price drop for standard assets. The amortization scale is shown in Figure 1 in the result section. The input data for our research is included in Table 1, which is an inventory of all STFA owned by the XYZ Association at the valuation day with the acquisition dates of each item and its cost.

The vast majority of its STFA consists mainly of computer equipment. This also follows from the nature of the business strategy of the XYZ model association.

Tab. 2: List of STFA model association XYZ

Date of acquisition	Small tangible fixed assets (STFA)	Cost [CZK]
4.2.2010	Monitor LCD 24" BENQ	5,393.5
31.3.2010	PC Triline Profi Office	9,747.0
18.5.2010	Fridge Elektolux ERC2500	5,832.5
19.12.2013	Computer CoolerMaster	18,000.0
13.1.2014	LCD 20" FUJITSU monitor	2,118.9
13.1.2014	Printer EPSON TM-U220B-057	6,028.6
1.4.2015	Laptop ACER ICONIA W5, 8"	6,016.2
22.7.2015	Laptop Acer Apsire E15	12,833.0
30.4.2016	Tablet HP Pro 10 EE G1	9,503.0
31.8.2016	Laptop Lenovo IdeaPad 100	9,668.0
31.10.2016	Laptop Lenovo	11,489.0
31.10.2016	Laptop Acer Aspire	14,968.0
10.2.2017	Lawn mower	9,495.9
27.2.2017	Submersible pump	9,409.1
7.12.2017	Mobile phone Huawei P9 lite	4,083.5
13.12.2017	Navigation Tom Tom VIA 52 Europe	3,710.7

Source: Custom adjustment.

According to Table 2, this is STFA with a total acquisition value of CZK 138,296.89, with a purchase price ranging from CZK 2,118.9 to 18,000. It is also evident that the oldest STFA, which is still used by the XYZ modeling association, was purchased on 04/02/2010 and the newest just a few days before the valuation day (13/12/2017).

3.1 Small tangible fixed assets (STFA)

Tangible fixed assets (TFA) include assets with a useful life of more than one year and a unit cost of more than CZK 40,000, pursuant to Act 586/1992 Coll. on income taxes. The limit of CZK 40,000 is fixed by law, but the lower limit may be set by the entity separately and information on this limit must be disclosed in the notes to the financial statements (Czech Republic, 1992). According to the internal accounting regulation, the XYZ association has set a cost limit for the classification of items between STFA from CZK 2,000 to CZK 39,999.

For example, according to Decree No. 410/2009 Coll. implementing certain provisions of Act No. 563/1991 Coll. on Accounting, as amended, for certain selected entities, which is valid for territorial self-governing units, voluntary unions of municipalities, regional councils of cohesion regions, contributory organizations, state funds according to budgetary rules and state organizational units, STFA is defined as tangible movable assets , or sets of assets that are characterized by a separate technical and economic purpose, for which the useful life is longer than one year and the valuation of one item is CZK

3,000 or more and does not exceed CZK 40,000 (Czech Republic, 2009).

The identification of STFA is very important. Sometimes, depending on the nature of the business carried on by an enterprise, items that cannot be considered STFA may fall into the price range set by legislation. Stocks are a typical example. In the case of stocks which are intended for direct sale (goods), they are not, as a rule, met the condition of long-term.

However, depending on the activity performed, it should be remembered that what may be referred to as STFA for one company may not be STFA for another company. It is also necessary to distinguish STFA, TFA and stocks. For example, for a real estate company, an object, although intended for the operation of a manufacturing activity or the provision of services, is merely an item of stocks but for a company that actually carries out any of these activities, it will be a TFA item. Stocks, such as hand-made intermediates for further processing, may exceed the time constraints on tangible fixed assets at larger storage capacities and low consumption. In this case it is necessary not to assign them as TFA or STFA item. It should also be borne in mind that some of XYZ's assets, even if it complies with its internal accounting regulation for the definition of STFA, while not being stocks at the same time, is not that kind of property. Examples include lighting, external water heaters, etc. These items are part of the construction equipment and are always an integral part of the construction works and therefore cannot be considered STFA items. Although STFA does not form a substantial part of the assets of the XYZ model association, it is nevertheless necessary to carry out an appropriate valuation. Tangible assets are always tangible in nature.

4 Results

Based on the observations described in the methodological part of the paper, the amortization scale was compiled, which is depicted in Figure 1 and subsequently applied to solve our question.

Figure 1: Amortization scale of STFA
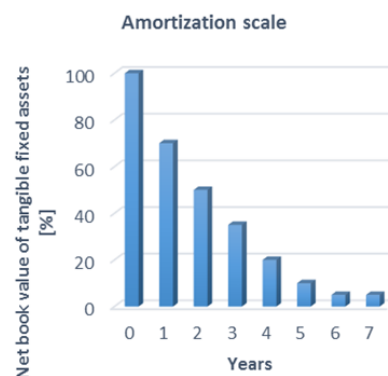
Source: Own.

The amortization scale represents the estimated percentage of STFA due to wear and tear with a use period of up to seven years. Based on our observations, the largest decrease in STFA is evident in the first year since its acquisition. In subsequent years, the decline in value is more gradual and smooth. It is also interesting to note that after two years of use STFA loses 50% of its original cost. Since the fifth year its value is less than 10% of the original value. The last noticeable decrease in the value of STFA is apparent between the fifth and sixth year after its acquisition. Since the seventh year of STFA its value has been around 5%. However, the time it takes to do so depends on how you use and maintain a particular item. With proper and gentle handling and proper and regular maintenance and technical inspection, this can be used for many years. However, this

applies provided that the item can continue to perform its function.

Depending on the value of the new STFA and the value at which the STFA used was sold through the advertising servers, its value decreased as the age increased in all price categories in the same way.

Based on this flat rate method, the STFA value of the XYZ model association was subsequently determined. The resulting values of the individual STFA items are given in Table 3.

Tab. 3: Value of small assets at the valuation date determined according to the flat-rate method

Date of acquisition	Small tangible fixed assets (STFA)	Residual value [%]	Value after valuation [CZK]
4.2.2010	Monitor LCD 24" BENQ	5	269.7
31.3.2010	PC Triline Profi Office	5	487.4
18.5.2010	Fridge Elektolux ERC2500	5	291.6
19.12.2013	Computer CoolerMaster	10	1,800.0
13.1.2014	LCD 20" FUJITSU monitor	20	423.8
13.1.2014	Printer EPSON TM-U220B-057	20	1,205.7
1.4.2015	Laptop ACER ICONIA W5, 8"	35	2,105.7
22.7.2015	Laptop Acer Apsire E15	35	4,491.6
30.4.2016	Tablet HP Pro 10 EE G1	50	4,751.5
31.8.2016	Laptop Lenovo IdeaPad 100	50	4,834.0
31.10.2016	Laptop Lenovo	50	5,744.5
31.10.2016	Laptop Acer Aspire	50	7,484.0
10.2.2017	Lawn mower	70	6,647.1
27.2.2017	Submersible pump	70	6,586.4
7.12.2017	Mobile phone Huawei P9 lite	70	2,858.4
13.12.2017	Navigation Tom Tom VIA 52 Europe	70	2,597.5

Source: Custom adjustment.

According to Table 3, we can see that the full scale of the amortization scale we have created was used. The value of all items was determined using this flat-rate STFA valuation method. Overall, the STFA value of the model association XYZ was set at CZK 52,578.79. Overall, the balance is 38% of the original cost of STFA. However, this is due to the composition of his age. Half of the STFA items were purchased more than two years before the valuation date, and therefore there is a more significant decrease in the total STFA value.

Our amortization scale can only be used if the STFA set is internally homogeneous and is mostly used for time reasons. According to the percentage decrease in STFA, it is clear that exactly half of the STFA items of XYZ have lost more than 50% of their purchase value during their use. By using a percentage decrease in the value of each STFA item due to wear, it is also possible to determine their usual current market financial value. The determined value of the assessed goods using the amortization scale was subsequently verified by a comparative method by comparing comparable goods according to the advertising servers. Comparable items were selected on advertising servers of similar age and wear state and their final selling price was monitored. According to this observation, it was found that the decrease in value depending on the age and wear of a similar item was similar according to the advertising servers, which indicates the benefit of our paper.

Table 4 lists the STFA items found at Czech advertising servers (www.bazos.cz, www.sbazar.cz) for comparison.

Tab. 4: STFA items for sale found

Comparable STFA according to the same age, wear and parameters	Value according to www.bazos.cz [CZK]	Value according to www.sbazar.cz [CZK]
Monitor LCD 24" BENQ	* 200 * 350	* 300
PC Triline Profi Office	* 800	* 350 * 450
Fridge Elektolux ERC2500	* 250 * 500 * 400	XXX
Computer CoolerMaster	* 1,000	* 1,900 * 2,200
LCD 20" FUJITSU monitor	* 200 * 600	* 500 * 800
Printer EPSON TM-U220B-057	XXX	* 1,000 * 1,550
Laptop ACER ICONIA W5, 8"	* 2,000 * 2,200	* 2,400 * 3,000
Laptop Acer Apsire E15	* 4,000	* 5,000
Tablet HP Pro 10 EE G1	* 3,500 * 4,400	* 5,000
Laptop Lenovo IdeaPad 100	XXX	* 4,000 * 5,500 * 6,000
Laptop Lenovo	* 5,000	* 6,500 * 6,200
Laptop Acer Aspire	* 6,500	* 8,000
Lawn mower	* 6,500 * 7,000 * 6,900	* 7,000 * 6,800
Submersible pump	* 5,500 * 7,500	XXX
Mobile phone Huawei P9 lite	* 2,100 * 2,800 * 3,000	* 3,500 * 3,000
Navigation Tom Tom VIA 52 Europe	* 2,800 * 2,500	* 2,200 * 2,350

Source: Advertising servers.

5 Conclusion

The aim of the paper was to identify the specifics of determining the STFA value of an enterprise on the example of XYZ. The results of this method were applied to small assets of the XYZ model association. For this purpose, a methodology was developed for the valuation method, which seems to be applicable in the future for further research of this nature. The STFA value of the XYZ model association was set at a total of CZK 52,578.79. The aim of the paper was thus fulfilled.

As far as transformation is concerned, we can state that after using the flat-rate method of valuation of STFA using the amortization scale we have created, the model association XYZ can enter the transformation process.

It can be stated that on the basis of observation of the development of prices of individual types of assets according to their length of use and purchase price, it is possible to assemble a universal tool for determining its current value according to its age and state of wear. In this we see the greatest benefit of our paper. Our proposed amortization scale could therefore have several forms, depending on the type of property that will be valued with it. The final value of the asset at its valuation date using the amortization scale according to its age and wear and tear corresponds to its fair value.

Finally, it should be noted that the amortization scale we have created is valid for determining the value of STFA only in the conditions of the Czech Republic and its economy. It should be emphasized, however, that the methodology proposed by us is only applicable under very specific conditions, which include the normal use and prescribed maintenance of all items to which this method would apply. It cannot be used for damaged items, such

as excessive wear or completely broken. Even if the economies of other states are not isolated, it is necessary to be aware of their differences and in the case of the valuation of STFA it will be necessary to create a new amortization scale that will reflect the evolution of the value of a particular type of property in a particular country. However, our methodology can be used in other countries as well.

Table 5 shows a comparable STFA offered on Czech advertising servers that is of the same age as the STFA items owned and used by XYZ.

Tab. 5: Prices of used STFA by advertising servers

Comparable STFA according to the same age, wear and parameters	The value requested by the seller of the used piece [CZK]	Value determined according to methodology[CZK]
Monitor LCD 24" BENQ	200-350	269,7
PC Triline Profi Office	800-350	487.4
Fridge Elektrolux ERC2500	250-500	291.6
Computer CoolerMaster	1,000-2,500	1,800.0
LCD 20" FUJITSU monitor	200-800	423.8
Printer EPSON TM-U220B-057	1,000-1,500	1,205.7
Laptop ACER ICONIA W5, 8"	2,000-2,200	2,105.7
Laptop Acer Apsire E15	4,000-5,000	4,491.6
Tablet HP Pro 10 EE G1	3,500-4,500	4,751.5
Laptop Lenovo IdeaPad 100	4,000-6,000	4,834.0
Laptop Lenovo	5,000-6,500	5,744.5
Laptop Acer Aspire	6,500-8,000	7,484.0
Lawnmower	6,500-7,000	6,647.1
Submersible pump	5,500-7,500	6,586.4
Mobile phone Huawei P9 lite	2,100-3,500	2,858.4
Navigation Tom Tom VIA 52 Europe	2,200-2.800	2,597.5

Source: Advertising servers.

According to Czech advertising servers (www.bazos.cz, www.sbazar.cz) the same or similar STFA items with similar age, wear and technical parameters were found to validate our results. The range of the stated target values for the offered STFA given in Table 5 depends on the greater or lesser extent of the presence of cosmetic defects, but all these items are advertised as fully functional. It is important to note, however, that the STFA values we set oscillate within the range of values on the advertising servers.

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