EARNING VALUE APPROACH VS. ASSET-BASED APPROACH VALUATION OF A BUSINESS

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Abstract: An appraiser has many valuation methods available for valuing companies. The right choice of the method used is very important to achieve the right result. The aim of our paper is to compare the view of a self-employed person and a third rational person on the result of valuing the self-employed person's business using the earning value method. To evaluate the business of the freelancer, tax returns and cash diaries are used as input data. Furthermore, the views of both parties on the value of self-employed business determined using the earning value method are discussed. Two conclusions are reached. (1) In the event of valuing a business, it is not possible from the view point of a rational person to identify all the value-creating factors that are often crucial for the freelancer. (2) A negative value of an enterprise determined using the earning value method may not always mean an error of the appraiser. The idea of two different perspectives on the value of a company is demonstrated on a model example of valuing a self-employed person.

Keywords: self-employed person, business valuation, investor, earning value method, asset-based valuation method, negative value of a business

1 Introduction

There are a number of valuation methods available to determine the value of a company; it is always necessary to select one or more which are most suitable, taking into account the circumstances of the valuation. Their choice depends on the specific characteristics of the company that is the subject of the valuation and the purpose for which the valuation is to be processed (Rowland et al., 2019). This also applies when the subject of the valuation is a business activity carried out by a self-employed natural person (self-employed person, freelancer). A self-employed person is a natural person who carries out a systematic activity, the aim of which is to make a profit. In the course of pursuing this activity, the self-employed person has to make many decisions that have a direct impact on the amount of income from such activity. Unlike a company, however, a self-employed person has more time to make a decision than joint-stock companies, as they are forced to make quick decisions due to movements in the value of shares on stock exchanges (Park and Kim, 1997).

In the case of valuation of a company, it is usually desirable to look at the valued company from the perspective of an independent third party, particularly in such situations where the valuation simulates the possible sale of the company (Stehel, Hejda and Vochozka, 2019).

The key factor in choosing the valuation method is whether the assessed company qualifies as a going concern. If this assumption is met, one of the earning value methods is usually used to evaluate the company. In some cases, however, other hidden (non-financially expressed) values, which are usually relevant only to the business operators, may not be taken into account while using the yield valuation method. For this reason, the earning value of the company based on the input data might be set at zero or even negative – that is when valued from the perspective of an independent third party (Vochozka, Stehel and Rowland, 2019). In such case, the common next step is to choose the asset-based valuation method, which achieves a positive value of the company for most valued companies. It is nonetheless also possible to achieve a negative or zero value of the company using the asset-based valuation method. It concerns companies that do not have any earning potential in the future, and in many cases have some additional financial burden – debts, etc. (Vochozka, Rowland and Šuleř, 2019).

The aim of this paper is to determine the value of a company - a natural (self-employed) person – using the earning valuation method, with subsequent comparison of the views of the entrepreneur and a potential investor, as an independent rational person, on the value of the company estimated using this method. The different views of the two parties will be explained in the ensuing discussion. The situation will be simulated on a model company – a business run by a self-employed person.

2 Literature Review

The entrepreneurship of the self-employed is very specific in many respects. These mainly concern work habits and attitude to the entrusted job. In some companies, such people play a key role that is essential for the functioning of the whole company. The advantage of the employment relationship between the company and the self-employed is often perceived as the greater degree of flexibility in mutual cooperation. It is also necessary to take into account the different performances of employees and self-employed persons. Although the self-employed might not be an expert for the employing company, this deficiency can be eliminated mainly by the self-employed. Working as a freelancer across several companies also has the advantage of developing skills in several fields and directions at once (Huckman and Pisano, 2006).

The decision of an individual to do business as a self-employed person is perceived as a very positive way to the personal development of each entrepreneur. Such decision forces the entrepreneur to fully immerse in the entrepreneurial approach to solving all problems and issues, as these decisions (internal factors) influence the amount of profits (Opait, Damian and Capatina, 2019). According to Suss and Becker (2013), one of the external factors that influences the amount of profits is the level of total employment in a particular country. Gold and Mustafa (2013) examined the work ethic of self-employed people who work as external workforce in a company. Every self-employed person always tries to find a balance between work and family time. For this reason, self-employed people often work late and their working hours are very irregular. At some point, however, the family always wins over the work, since their business is perceived as a way of making a living and ensuring sufficient funds for all other family members. Occasionally, excessive work can however have a negative effect on their personal lives. According to Grugulis and Stoyanov (2011), starting a business is a very effective tool for gaining the necessary practice after graduation. Some companies are equipped with a program for employing recent graduates, but this is not always the case. In other cases, companies are more interested in employees who have already a good command of their field and can thus generate a profit straight away.

Becoming self-employed can thus be an excellent means for graduates to gain the required experience and increase their chances of obtaining a position in a stable job in the future. Suss and Becker (2013) add that the implementation of the self-employed in a stable society, operating for example in IT, is shaped by technical, social, and networking competencies. In the case of implementation of self-employed persons, in the company's work team, it is also necessary to assess the degree of loyalty, which the self-employed are able to show to the companies. Suss (2006) concluded that in the case of a stable company offering cooperation to the self-employed, the level of loyalty to the company is very high. However, it is necessary to take into account the correlation of all requirements, expectations, and working conditions that are expected by both parties, which will thus establish an employment relationship.

Nowadays, in the online world, self-employed people have an opportunity to work together to achieve common goals. In some cases, collective organizations are set up for such purpose, where a group of external workers jointly solve a specific problem. In addition, present technology allows individual workers from

different parts of the world to work together from the comfort of their homes. Thus even low-skilled workers can be connected, and derive valuable information from these connections for their personal development. The resulting work can therefore be done more efficiently and better than in a company environment (Wood, Lehdonvirta and Graham, 2018). Ferriani, Cattani and Baden-Fuller (2009) examined the performance of self-employed collective organizations. According to their conclusions, it is clear that the performance of such organizations, alike the performance of the work team for an employee, depends on the cohesiveness of the entire work team. Every member who joins or leaves the self-employed collective organization disrupts this collective cohesion, which is also reflected in performance reduction of the entire collective organization. Malone and Laubacher (1998) describe the connection of the self-employed via the Internet as a development of E-lance economy.

Platman (2004) states that the decline in the rate of economic activity among the elderly can be compensated if they decide to start a business. The elderly generally prefer flexible working hours and more variable ways of doing work. Many of them have gained a lot of experience over the years, therefore they can put this experience to good use in form of counselling for other businesses or individuals.

Kitching (2015) focused on the development in the number of people making living as a self-employed person in the United Kingdom. According to his results, it is apparent that during the years 1992-2015 there was a large increase in the number of job positions. Parallel to that, there was also an increase in the number of self-employed persons. This could also be the reason why the demand for external workers from companies in all sectors increased in the monitored years.

From the point of view of the investor, as an independent rational person who would decide to buy a company operated by a self-employed person, it is necessary to determine the earning potential of the operated company. Zhao (2009) states that with the faster-growing world economy, investor opportunities are ever growing.

New start-ups are of interest to many investors, who can use them to increase their assets. According to Miakčová and Gavlaková (2013), the company's earning value is a key indicator for investors, owners, and creditors. Determining the value of a company also contributes to further decisions about the way of its management, formation and further increase of its value.

When potential investors make decision to invest in a particular company, they usually evaluate its financial indicators. They are primarily interested in the amount of profit generated, the book value of the company and the amount of free cash flow. However, according to Amir and Lev (1996), this information may not be relevant in order to provide the investor with comprehensive information on the basis of which they can estimate the amount of his future profits in the event of the investment.

From the investor's point of view, among the relevant information that indicate the degree of revaluation of the invested funds should also be certain non-financial indicators of the company, such as the degree of the market penetration. Only the combination of financial and non-financial indicators provides the investor with accurate data to determine the future value of their investments.

The investor achieves the best return on their investment if he or she subsequently becomes the sole owner of the business. Assuming that real estate is also acquired with the ownership, according to Krulický and Horák (2019) such real estate can be viewed as an investment asset.

From different perspectives, investors can be divided into speculators and long-term investors. Speculators invest their funds in specific sectors with the expectation that the value of these companies will increase over time due to an expected event. Long-term investors divide their funds into more companies over a longer period of time. Clark-Murphy and Soutar (2004) state that 99% of all investors are long-term investors. There are very few speculators in this area.

When valuing companies, their business model, which allows companies to invest in research and development, and its history are always looked at. This model should always be adapted to current needs and market behaviour. The ability to swiftly react to these changes by innovating the business model is one of the most appreciated non-financial indicators (Amit and Zott, 2012).

Rajnoha, Novak and Merkova (2016) focused on business performance in companies and in the area of measuring and managing investments. They examined whether individual methods of valuing investments in the company, or the synthesis of several of these methods, have a positive effect on the company's performance.

Yermack (1996) states that companies with fewer executives achieve higher market value when sold. Companies with simpler management structures also create a more favourable environment for employees due to reduced stress from losing their job position, and employees of such companies are thus able to achieve higher performance, which is evident from the financial statements. These companies thus become companies with high earning potential for investors.

In valuation practice, it is most common to determine the market value of the evaluated company. In recent years, companies have been frequently changing their forms of business. This may be very unfavourable for potential investors, and it can cause distortion of historical company data. In such case, it is possible to use the Discounted Cash Flow method, which can overcome aforementioned difficulties (Schnorrenberger et al., 2015).

3 Materials and methods

First, an analysis will be performed, concerning all background materials available to determine the value of a self-employed model trade. Following the necessary corrections, the valuation itself will be carried out using the earning valuation method from the perspective of a third independent rational person (investor). If the value of the model trade of a self-employed person determined by this method is zero or negative, it will be valued using the asset-based valuation method. Subsequently, various views will be discussed from the perspective of the freelancer as well as a potential investor who would consider buying the created company. A self-employed person provided all available data on the trade functioning in order to create this article. The data will be analysed as a matter of priority, and corrected – if necessary – for the use of selected valuation methods.

The model trade operates in the area of chemist’s products sales. The self-employed person runs the trade in a multi-storey property, which he is also owns. The business premises are situated on the ground floor of this property. On the other floors there are housing units, which are rented out as flats. The model trade valuation will be performed as of September 30, 2008.

Earning valuation methods are focused on the future state and development of the company and its ability to generate profit (revenue) for its owner. Depending on the choice of valuation method, the future operation of the assessed company can be viewed in one or more phases. Applying the so-called multi-phase future of the company places high demands on the data as well as their processor. Therefore the valuator is usually given only a one-phase or a two-phase view of the future; that is, a view of the future operation of the company as strongly stable, or as stabilizing for several years and estimating its further viability.

In our model case, the one-phase view of the future functioning will be applied, with special regard to the available information and data on the history of the model company.

The future image of the company will be based on adjusted financial results of previous years. Based on a preliminary analysis of the input data, it was found that the trade owner did not pay himself an appropriate wage for his work, but only used a part of the profit share that the trade was able to generate. Based on this fact, it will be necessary to make a correction of past financial results from the years preceding the valuation date (September 30, 2008). Specifically, these will be the years 2005, 2006, 2007 and the period from 1 January 2008 to 30 September 2008. However, for the purposes of valuation in 2008 there is available only a money diary kept by the freelancer.

The first necessary correction of the economic results will therefore concern establishing an average wage for fictitious employees who, due to the nature of the business, would work as a cashier and a shop manager in charge of all jobs related to ensuring a smooth sale of goods. For this reason, two average wages (cashier + shop manager) will be considered when implementing the financial plan correction.

The data for the simulated wages, which will be added to the costs of the company XYZ, will be drawn from the database of the Czech Statistical Office (CSO). Based on the data, a simulation will be performed to estimate an average gross monthly wage of two workers in the trade section (CZ NACE Register of Economic Entities 45, 46, 47).

Further background analysis revealed that the self-employed person does not comply with the principle of proper management from the point of view of an independent third party concerning the rent of the housing units in the rest of the owned property. This conclusion was reached on the basis of the financial consideration required from the tenants. The amount required does not correspond to the usual amount of financial consideration based on the current state of the real estate market. Therefore, an adjustment will be made to the amount of financial consideration collected for the rent of these properties in order to comply with the principles of good economy. The deduction of collected financial consideration from the rent of the real estate for previous years will be made, and subsequently the amount of financial consideration corresponding to the state of the real estate market in the given year and location will be added.

To determine the amount of standard rental price for the years 2005-2008, it will be necessary to express the past value of the rent. This will be done by deducting the inflation from the given years from the current standard rent. The value of year-on-year inflation will be taken from the CZSO (2020). To express the past value of market rent, the mathematical model "interest decharger" calculated according to formula No. 1 will be used:

$$SH = BH * (1 + i)^{-n}, \quad (1)$$

where: SH – current value,
BH – future value,
i – interest rate,
n – number of time periods.

Based on the determined amount of the simulated wage and the amount of rent for all years, the economic results of XYZ will be corrected.

After the correction of the input data, the value of the company XYZ will be determined using the earning value method, specifically the method of capitalized net income in the variant of flat rate calculation. This method is chosen on the assumption of further uninterrupted continuation of the activities of the self-employed person, i.e. following the principle of "going concern" and its earning potential. The calculation of the value of the business operated by the self-employed person using the earning value method will be calculated using formula No. 2.

$$HP = \frac{T\check{C}V}{i_k}, \quad (2)$$

where: HP – value of the business,
$T\check{C}V$ – distributable net income,
i_k – calculated interest rate.

The distributable net income will be calculated using formula No. 3.

$$T\check{C}V = \frac{\sum_{t=1}^{K} q_t \check{C}V_t}{\sum_{t=1}^{K} q_t}, \quad (3)$$

where: $\check{C}Vt$ – past adjusted net income,
q_t – weights that determine the significance of net income in a particular prior year for estimating the future distributable net income,
K – the number of previous years included in the calculation.

Following that, it will be necessary to assign individual weights to the financial plan, compiled on the basis of adjusted data from previous years of self-employment, according to their importance, which decreases with increasing time interval from the valuation date. By choosing these weights, the degree of influence of the adjusted profit from previous years on the value of the company as of the date of its valuation will be adjusted.

Before calculating the value of the business operated by the self-employed person using the earning value method, it will be necessary to determine the amount of the calculated interest rate. In the case of self-employment, the calculated interest rate represents an alternative cost of equity (r_e). The indicator of alternative costs of equity and the possibilities of its use are described in detail by Vochozka and Rousek (2011). The modular method will be used to determine it. The input data for the r_e calculation will come from the data of the Czech National Bank (CNB, 2020) and the data of the Ministry of Industry and Trade (MPO, 2016). The calculation of the amount of alternative costs of equity will be based on the identification of possible risks for the self-employed and the subsequent sum of several partial risk surcharges and the risk-free rate of return on long-term government bonds.

The inflation target of the Czech Republic will also be taken into account. Finally, the risk premium for the specific risk will also be taken into account. The calculation itself will be performed according to formula No. 4.

$$r_e = r_f + r_{pod} - inflace + r_{spec}, \quad (4)$$

where: r_e – alternative cost of equity,
r_f – risk-free return,
r_{pod} – risk premium for self-employment risk,
r_{spec} – specific risk premium.

Subsequently, the amount of permanently deductible net income will be determined according to formula No. 3, and then the value of the self-employed operated business will be determined using the earning value method according to formula No. 2.

From the view point of an independent third party, the general assumption of a long-term zero or negative earning value of the company is the termination of business activities. In such case, its value is determined using the asset-based value method and sold for the amount thus determined, i.e. the principle of "going concern" is refuted, the termination of business activities assumed, and the company sold as individual assets or in parts.

The asset-based value method expresses the immediate value of the company at the valuation date, estimates the company's assets at market value and revises the company's liabilities incurred before the valuation date. This valuation method is used particularly when it is not possible to comply with the principle of "going concern". This means that such a company no longer

has any future earning potential for a potential investor, and in such case it is appropriate to sell the company for financial consideration, the amount of which corresponds to the sum of the market price of the company's assets. Asset-based value methods are recommended especially in cases where the company's earning potential is low or cannot be reliably determined.

The value of the company's goodwill can be obtained by the difference between the earning value and the asset-based value of the company. Determining the goodwill value of companies was addressed, for example, by Podhorská et al. (2019).

4 Result

First, an analysis of all available background data provided by a self-employed person was performed. Based on this analysis, it was found that the business owner did not pay himself an appropriate wage for his work, which would be deserved for the operation of his business, or else should belong to another person doing the job. In order to maintain the perspective of an independent third party, which is necessary for the purposes of the valuation, a simulation of the wage costs was performed as it would be paid by this third party as the business owner should they hire employees to run the chemist's shop. Thus, the business owner could fully focus on performing his role as the investor/ strategist and the main leader.

Czech Statistical Office (CSO, 2020) data were used to simulate the amount of wage costs. Table 1 shows the development of average labour costs, according to the relevant industry and the corresponding year.

Tab. 1: Determining simulated yearly wage costs

Year	2005	2006	2007	30/9 2008
Average gross wage (CZK)	16,421	17,471	19,097	20,702
Social insurance rate	9%	9%	9%	9%
Health insurance rate	26%	26%	26%	26%
Total monthly cost per employee (CZK)	22,168	23,586	25,780	27,947
Annual cost for two employees (CZK)	532,042	566,075	618,733	251,528

Source: CSO (2020).

In the financial plan, the amount of simulated annual wage costs for two employees was added to the costs necessary for maintaining further operation of the self-employed business, when viewed from the valuation perspective of an independent investor.

After further analysis of the background data, the amount was adjusted by financial consideration that would have belonged to the freelancer for renting out the housing units in his real estate. The disproportionately low payments collected for the rent in previous years was deducted, and at the same time a financial consideration was added in the amount corresponding to the state of the real estate market in the given year and locality.

Formula No. 1 was used to determine the usual rent price for the years 2005-2008. Five units of similar size and locality were found and used for comparison. Based on the market prices of similar housing units traced through real estate advertising servers, the usual market rent in 2013 was determined at CZK 5,000 without energy per unit. The owner demanded financial consideration in the amount of CZK 500 as energy fees. Therefore, the total amount of market rent was set at CZK 5,500. Table 2 shows the determined amount of market rent from the years 2005-2013.

Tab. 2: The amount of market rent for one housing unit

Year	Inflation (%)	Market Rent (CZK)
2013	1.40	5,500
2012	3.30	5,424
2011	1.90	5,251
2010	1.50	5,153
2009	1.00	5,077
2008	6.30	5,026
2007	2.80	4,729
2006	2.50	4,600
2005	1.90	4,488

Source: CSO (2016); own.

Based on Table 2, it was found that in 2005 the self-employed person collected CZK 85,392 less for the rent of the two owned housing units than was the real market rent that year. In 2006, it was a potentially lost profit of CZK 88,075 and in 2007 of CZK 91,166. In the period from 1 January 2008 to 30 September 2008, the amount of potential lost was CZK 73,736. Corrections in the financial plans were then made for an average amount of gross wages for two employees in CZ NACE 45, 46 and 47, and the newly determined amount of the usual market rent for two housing units. Table 3 shows the results of the financial plan correction.

Tab. 3: Adjusted economic results (ER) of previous years

Year	2005	2006	2007	30/9/2008
Income (CZK)	7,474,673	6,729,423	6,621,909	3,127,267
Costs (CZK)	6,993,047	6,748,180	5,984,506	2,852,250
ER (CZK)	481,626	-18,757	637,404	275,017
ER after wage cost correction (CZK)	-50,416	-584,832	18,671	23,489
ER after market rent correction (CZK)	34,976	-496,757	109,837	97,225

Source: Own.

The next step was to assign weights to individual years. The result is shown in Table 4. The allocation of weights of individual years was performed using the ranking method, while the year 2007 and part of the year 2008 have the same weight.

Tab. 4: Assignment of weights to individual years for the determination of distributable net income (DNI)

Year	2005	2006	2007	30/9 2008
Adjusted FR (CZK)	34,976	-496,757	109,837	97,225
Weight	1	2	3	3
DNI (CZK)	-37,484			

Source: Own.

According to Table 4, it is evident that the years closer to the date of valuation of the business were assigned higher weights than past years. This is due to the higher impact of recent years on the result of the valuation. Past years no longer have such a great impact on the current value of the business.

Subsequently, the distributable net income could be calculated using formula No. 3, arriving at the amount of CZK -37,484. This suggests that the company does not fulfil the conditions of the "going concern" principle.

Furthermore, to determine the value of the company, the interest rate was calculated using formula No. 4.
The yield of the ten-year government bond of the Czech Republic, according to the Maastricht criterion published by the CNB in July 2016, was 0.37%.

The risk premium for CZ NACE business category G Wholesale, Retail Trade and Repair of Motor Vehicles, published by the Ministry of Industry and Trade on 19 April 2016, was 4.45% for the first three quarters of 2015. According to the CNB, the target inflation in the Czech Republic is 2%.

It was also appropriate to increase the calculated interest rate by one half of the risk premium to express the risk arising from the fact that the key person of the company (self-employed person) currently holds the position of all employees and owners. It can therefore be expected, that his long-term absence would have a significant negative impact on the operation of the shop, or the whole business.

After substituting these values into formula No. 4, we obtain the following relationship:

$$i_k = 0.37 + 4.45 - 2 + 2.23 = 5.05. \quad (5)$$

The amount of the calculated interest rate was set at 5.05%. Using the earning value method, subsequent substitution into formula No. 2 calculated the value of the self-employed business as -742,249 CZK.

Due to the negative result of the business value, it was subsequently assessed with the help of the asset-based method. By summing up all assets and property items that are used for the business operation, the total value was set at CZK 1,926,070. This difference in the use of the earning value and asset-based valuation methods will be discussed in the discussion section.

5 Discussion

When processing a valuation of a company, it is always necessary to take into account the purpose for which the valuation is being processed. As already mentioned, the output of the valuation is usually a so-called objectified value, i.e. a view of a third independent person (investor) on the company as a whole. Krabec (2007) is also inclined to determine the objectified value in the event of company valuation. From this point of view, it is not possible for the operated trade to report a long-term negative value for its owner (self-employed person), or to incur accounting losses in the long run. In such case, the law defines that when equity falls to negative values, such enterprise is considered over-indebted and should cease to exist.
In our model case, however, this situation occurred, or more precisely, the negative distributable net income was generated by adjustments to the accounting economic result, and thus represents the expected economic result for a new potential owner – an independent third party.

The negative result of the company value occurred due to non-compliance with the principle of sound management, which was caused by flaws already revealed in the analysis of the input data for calculating the company value using the earning valuation method. The first revealed deficiency was the inefficient use of rented housing units for very low financial consideration, which did not even approach the usual market prices of similar types of real estate in specific previous years. The second adjustment decreasing the achieved economic result was the adjustment of salaries paid for executive and managerial work to the company's employees. From the viewpoint of a third independent rational person, the corrections made are absolutely fundamental and have a significant effect on the resulting value of the company.

The first identified shortcoming in the form of a disproportionately low financial consideration collected from the rent of owned housing units is very specific. From the point of view of a third rational person, there is no reason for the owner of housing units to rent his property without any profit, or at a price lower than usual. In this respect, it could be said that the principle of sound management was not respected by the landlord. This shortcoming was removed by performing a simulation of the common market rental price for similar types of housing units.

The second identified deficiency was eliminated by simulating the amount of wages for employees, which would ensure the smooth operation of the chemist's shop. This is one of the most effective methods of solving such flaws, and very common in the case of the self-employed. The reason is the fact that the self-employed person alone performs the job of the executive, the manager and the business owner. In the case of a standard operating company (Ltd., Plc., etc.), this problem is encountered very rarely in valuation practice.

Overall, from the point of view of a third rational person it is possible to consider these identified deficiencies the main causes of the negative earning value of the model company.

However, it is of high importance to look at the whole problem from the perspective of the self-employed. It is important to realize that, from his point of view, other values are hidden in the activity he carries out, which may be of such importance to him that in his eyes they exceed the negative return value of the business. These can be specific objects of personal value or internal emotional processes, or family ties, which are very valuable for the business owner. In such case the business owner ought to consider whether all these circumstances outweigh the negative value of his trade.

According to the legislation of the Czech Republic, it is the free will of self-employed persons which area of trade they will engage in for the purpose of making a profit. Trades in the Czech Republic are divided into free and regulated. No special permits or documentation of the necessary knowledge is required to operate free trades. On contrary, it is required for regulated trades. As a rule, these are trades involving activities that can endanger the life of the operator or other people shall the operator be unprofessional.

As mentioned above, the business owner's goal is to make a profit. However, from the perspective of a self-employed person, this assumption can also be fulfilled when, for the purposes of valuing his business activity, the view of a third independent, rational person on the operated enterprise as a whole is needed.
From the point of view of the freelancer, there are also a number of explanations regarding the issue of low financial consideration for renting housing units, which may not be relevant or obvious from the point of view of a third rational person. One of these explanations may be the personal relationship between the owner of the rented housing units and their tenants. This may, in the personal preferences of the landlord, cause him to decide to rent these housing units "only" at a monthly fee equal to the costs associated with their using, without any further profit. Another reason may be the rental of the housing units in order to preserve their value in the form of maintenance work, which would not be reimbursed to the tenant. In this case, it would be additional income for the self-employed, which, however, cannot be traced from the kept business documents.

Concerning the issue of unpaid wage costs for the freelancer, it is necessary to realize that self-employed persons are able to hold a position of an employee (in this case an employee of a chemist's shop), a shop manager, and a business owner at the same time. Nevertheless, such combination of all these positions is not considered by a third rational person, because their perspective is only from the position of the business owner who will logically look for employees to provide manpower for the operation of the company, and therefore the earning value of the company calculated with the wage costs for other employees.

For this reason, it is necessary to realize that the negative value of the company determined using the earning value method does not necessarily mean an error of the appraiser or illogical thinking of the self-employed. It is also necessary to realize that from the perspective of the self-employed person, these may be logically substantiated reasons, although causing zero or negative value of his business activity, and at the same time such reasons cannot be seen from the point of view of a third party.

Another comment can be made regarding the subsequent use of the asset-based valuation method to value the company. Although this procedure is stipulated by the relevant law of the Czech Republic, it is not a guarantee that the appraiser will always reach a result that will indicate the positive value of the assessed company. Albeit such assumption will apply in 99% of cases, there is one percent in which a negative valuation of the company can be achieved using the asset-based valuation method.

This may occur if the enterprise's assets consist of items that have a negative value for the enterprise. These are most often items that such a company needs to "rid of" as soon as possible, for example waste disposal, etc. Even if an enterprise engaged in such activity collects financial consideration for this activity, at the time of determining its value using the asset-based method, the value of the assets that represent the material to be disposed of may be higher than the value of mechanization, machinery and real estate with land that is needed for its disposal. For such companies, it does not mean that they do not generate any revenue for their owners and thus do not comply with the "going concern" principle.

6 Conclusion

The value of the self-employed business was determined using the earning valuation method. The resulting value was set at -742,249 CZK, that is from the perspective of a third independent rational person. Subsequently, the asset-based valuation method was used, reaching a value of CZK 1,926,070. In the ensuing discussion, different views on the negative value of the business were clarified from the view point of the self-employed owner as well as a third independent rational person. It was proven that from the perspective of the self-employed owner this may not be an unfavourable state of his business. The aim of the contribution was thus met.

The main benefit of this paper is considered to be the recommendation that follows from the analysis of the whole issue for an appraiser or a potential investor. A negative result does not necessarily mean that the business operated by a self-employed person should be terminated. In such business may be concealed values visible only to the owner, but hidden from the view of a third independent rational person.

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