**IMPORTANCE OF BUSINESS VALUATION**

We humans tend to have the tendency of measuring value of each and every thing we spend our money on. Starting up a business involves huge risks so it becomes all the more important to check its **economic worth** from time to time. Business valuation can be defined in several ways but in layman language we can define it as, ***Business Valuation is a process and a set of procedures used to estimate the economic value of an owners interest in a business.***

Business valuation is not as simple as ABCD as it involves a wide range of fields and methods. While valuating a business the professionals have to make certain assumptions and specify the same in the final report. While finding out the business value following characteristics are needed to be considered:- *purpose of the valuation, date of valuation, selection of the method of valuation, thorough study of financial statements, assumptions undertaken, capital structure of the company/business and the industry in which the business operates.*



Finding the right value of the business is very fundamental for the growth and upliftment of the company. There are list of reasons why valuation of business is indispensable. Here we specify a few major ones:-

* **In buying and selling of business**

We often hear that a certain company acquired another company or that two business giants merged their business to reap greater profits, for example on 14th September, 2016 Reliance Communication merged with Aircel. Deals like these involving buying and selling require business valuation so that the key stakeholder procures profit or some benefit. While negotiating the price of the company it becomes obligatory to know the actual worth so that the buyer does not pays extra amount. Even in case of global collaborations and mergers business valuation is necessary so at attract and retain the foreign partners/firms



* **For settling legal disputes**

Disputes are common in the corporate world be it disputes between the shareholders, a disagreement in the joint venture, breach of contract or some other damage. The best and most just way to settle disputes arising in companies is taking legal action. While dealing with such cases the advocates and the judges often require to investigate into the actual value of business. The verdict given by the Court usually involve settlement through re-allocation or sale or shares or in some extreme cases sale or liquidation of business. Business valuators can help in making the court understand the actual meaning of the documents involved in the case, help the lawyers in forming technical questions against the other party and can even act as a testimony.



* **Financial reporting purpose**

In recent times financial statements are prepared by adopting fair value measurement which is one of the approaches of measuring business value to determine the value of assets and liabilities. The financial statements thus prepared are more authentic and reliable and help both the management and the investors at wide. Another importance of Business valuation.



* **Assessing intellectual property (IP)**

Both tangible and intangible asset form integral part of the company’s Balance Sheet therefore assessing the value of intangible assets is also necessary. IP is an intangible asset that includes creativity and in the global economy is considered as a strategic asset. Measuring the value of IP is imperative to determine the value it has created for the company, to monetise such value as part of the growth strategy and also to enhance the existing knowledge of IP.

Another integral part of business valuation is measuring the value of a company’s *goodwill*. Goodwill is defined as an intangible asset which is used in attracting investors. Maintaining a decent goodwill is necessary for a company’s image in market therefore proper valuation needs to be done.



* **In raising funds**

Money is the life blood of all the business whether it is a start-up or a well-established company. Prior to raising of funds through private or public investors or by taking loans an accurate valuation of business is a must. A well evaluated valuation adds credibility for investors to help them in determining whether to take a risk by investing or not. It also helps in making the regulators sure and confident about the fund raising process being fair and transparent.



* **In decision making**

The business valuation report submitted by the valuation professional affects the decision taken by the management team and CEOs of the company as it points out areas where the company is lacking or where there is room for improvement and also highlights the positive points stating that such policies should be continued. They keep these facts stressed in the report while formulating the future dividend policy, in designing a new capital structure if required and in deciding whether to undertake or not diversification or expansion of business and other strategic decisions.



* **To know the tax liability**

In our country India a number of taxes are levied on the business like tax on corporate income, capital gain tax, stamp duty, property tax, etc. Taxes are usually charged on the current economic value the business and consequently the owners of enterprises are interested in proper business valuation so that they have to pay as less tax as possible and having major portion of profit left of either dividend declaration or to kept aside as retained earnings. Higher the amount of dividend paid better will be the image of company in the market which indeed is very necessary.



The list is not far-reaching and there are other reasons too stating why business valuation has great significance in today’s modern corporate world. It is necessary that the valuation process be carried out by a skilled and licensed professional to ensure the authenticity. Nowadays companies use outsourcing for getting their business valued. In short, business valuation is necessary for developing a strategic plan for the business, minimising the risk of business owner in case of disputes and litigations, reduce company’s tax liability and provide assistance during auditing.