

MW Forensic is a newsletter prepared on an ad hoc basis covering topical issues in the areas of business valuations and forensic accounting.

CELEBRATING 10 YEARS OF MUNDAY WILKINSON

This year marks our 10th year as “Munday Wilkinson Chartered & Forensic Accountants”.

In this time we have:

- Prepared more than 1,800 reports concerning business valuations, loss of earnings assessments, economic loss claims, delay claims in property developments, assistance with compulsory acquisition claims, professional negligence opinions and financial investigations.
- Acted for over 220 legal firms.
- Been referred business valuation work by numerous accounting firms.
- Given expert evidence on numerous occasions in the Federal, Federal Magistrates, Family, Supreme, County and Magistrates’ Courts.
- Prepared numerous expert determinations.
- Prepared hundreds of single expert reports for family law purposes.
- Been involved in matters small and large, and low and high in profile.

We pride ourselves on providing independent and objective opinions and live by the Institute of Chartered Accountants motto: “Without Fear or Favour”.

We wish to thank you for being a part of last 10 years and hope we can assist you in the future.

LILIAN RETURNS

After spending the past couple of years working for an insolvency and forensic accounting firm in Hong Kong, we are pleased to announce that Lilian Hung has returned to Munday Wilkinson to resume as one of our Forensic Consultants. As some of you may recall, Lilian spent 3 years with us previously.

Our current staff comprises:

- Russell Munday (Director)
- Bruce Wilkinson (Director)
- Paul Spence (Director)
- Gerard Lim (Forensic Consultant)
- Lilian Hung (Forensic Consultant)
- Rosa De Roit (Administrator)

BUSINESS VALUATION & FORENSIC ACCOUNTING SPECIAL INTEREST GROUP JOINT CONFERENCE

The Institute of Chartered Accountants held a joint National Conference of its Business Valuation (BVSIG) and Forensic Accounting (FASIG) Special Interest Groups in Melbourne on 10 - 11 September 2009.

It was the third conference of the BVSIG and the eighth conference for FASIG.

Russell Munday and Bruce Wilkinson of Munday Wilkinson attended the conference.

BVSIG topics covered:

- Economic Update from Professor Neville Norman.
- Presentation by Roger Grabowski, Managing Director of Duff & Phelps LLC, Chicago USA on methods to assessing the cost of capital.
- Update on valuations for financial reporting and tax by Liz Smith, a Director of Grant Thornton.
- Factors affecting multiples for privately owned businesses and market trends by David Bird of BizExchange.

FASIG topics covered included:

- Keynote address by The Hon. Justice Neville Owen discussing his experiences in the HIH Royal Commission and Bell Group litigation.
- A case study presentation by Frank O'Toole of Deloitte on the world's largest corruption investigation, the investigation process and outcomes for the company and regulators.
- A comparison of the different approaches that apply to assessing damages for commercial claims and for commercial matters by Brendan Halligan of Halligan & Co.
- The forensic aspects of audit negligence cases by Martin Bloom of Deloitte
- Presentation by Trevor Vella of Trevor Vella & Co covering Value to the Owner Family Law cases.
- Overview of APES 215 Forensic Accounting Services

RULE OF THUMB VALUATIONS

Rules of thumb can serve as guides to the valuation of businesses in certain industries and are usually found in industries where there are a large number of participants with relatively predictable revenues and costs all following a common business methodology.

Rules of thumb have been developed over extended periods of time and as a result of market transactions.

They are mainly prevalent in the valuation of small businesses or readily comparable businesses. They are often based on multiples of gross revenue or net profit, although some rules of thumb may also consider activity-based ratios such as the number of litres pumped per month in the case of petrol stations. The following are examples of the few common rules of thumb that we have encountered:

- Travel agencies - 10% of gross sales, or one times gross commissions
- Insurance agencies - 100% to 200% of commission income
- Accounting practices - 60% to 120% of annual billings

- Employment agencies - 50% of annual gross income
- Financial planners - multiple of recurring commission
- Hotels - 3 to 4 times annual gross revenue
- Small-businesses - one year's net profit plus the owner's wage plus the inventory valued at cost and the equipment at depreciated value
- Agedcare centres - an amount per bed
- Childcare centres - an amount per child enrolled
- Real estate rent rolls - a multiple of the rent rolls annual income.
- Petrol stations - an amount per litre of petrol pumped per month plus the cost of the petrol underground

Caution

Rules of thumb change through time. It is important to note that as social, economic and business environments change, the application of an outdated valuation factor could easily result in over-valuation and therefore inadequate returns on investment. Also, rules of thumb do not consider the particular characteristics of the business being valued. ***Generally speaking, rules of thumb should only be used in support of other valuation methodologies and are never to be used as the sole method of valuation.***

SURPLUS ASSETS IN BUSINESS VALUATIONS

Surplus assets are those assets that are not essential for the operation of the business by an entity, such as a company. These may include property, investments in public or private companies, excess "surplus" cash and loans to other parties.

When valuing a business within a company, we separate those assets which are essential for the operation of the business from those which are surplus. A company over time may invest the undistributed profits in other areas such as property, shares, other businesses or luxury cars.

In the revaluation of the balance sheet to market value, there is the implicit use of capitalisation/multiples that are different to the capitalisation multiples used in the business valuation. For example: commercial property valued on the basis of a 8 - 10% capitalisation multiple, cash on deposit valued at 4.5%. A small to medium sized business is often valued at between 20% - 50%. (or 2 to 5 times earnings before interest and tax, EBIT).

It is therefore necessary to exclude those assets from the business valuation so that conflicting rates of return are not used in the determination of goodwill.

Where surplus assets are excluded from the valuation of a business, it is important to make the corresponding adjustments to the future maintainable EBIT. For example: the costs of the ownership of the property would be excluded and a commercial rent applied. Dividend or interest income would be excluded where shares or surplus cash is considered as surplus assets.

The assessed value of the entity, such as a company, as distinct from the value of the business comprises:

- The business value (which may be based on a capitalisation of future maintainable EBIT). This will represent working capital, plant & equipment and intangible assets such as goodwill applicable to the business.
- Plus, the surplus assets and liabilities of the company.
- Less, the financial liabilities due by the company to financiers/shareholders, etc.



Munday Wilkinson

Chartered & Forensic Accountants



Munday Wilkinson

Our Aim

Munday Wilkinson is a boutique business valuation and forensic accounting firm established in June 2000.

We offer the legal profession, and others, a quality, personalised, time efficient and cost effective service.

All our professional staff are subscribed members of the Business Valuation and Forensic Accounting Special Interest Groups of the Institute of Chartered Accountants in Australia.

Our Services

We are well experienced in:

- Business, share and other equity valuations
- Quantification of economic loss
- Loss of earnings assessments /reviews
- Family Law – Single Expert Reports, review of Single Expert Reports, investigations, advising on tax and refinancing issues for proposed settlements
- Fraud Reviews and Financial Investigations
- Due Diligence Reviews
- Professional Negligence matters concerning accountants, tax advisors, auditors and directors
- Compulsory Acquisitions – claims assistance
- Due Diligence services
- Expert Determinations
- Expert Witness

We can provide forensic accounting services for a wide variety of dispute related matters from the small to the large.

Further Information

If you would like further information regarding this newsletter or our services, please contact us:

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