The AICPA’s “General Standard Rule” (AICPA, Professional Standards, ET sec. 1.300.001 and 2.300.001), formally Rule 201, General Standards, states that a member shall “undertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.”

Performing a valuation engagement with professional competence involves special knowledge and skill. Statement on Standards for Valuation Services No. 1 states that a valuation professional should consider, at a minimum, the scope of the valuation engagement, including applicable premises of value (for example, fair value or fair market value), and the applicable premises of value (for example, fair value or fair market value). The primary purpose of this quick reference guide is to provide an overview of the relevant premises and standards used in valuations, and to assist the valuation professional with understanding those differences.

The overview of the guide is intended as a basic resource guide for litigation practitioners. It should not be construed as providing legal advice and it is not intended to replace the advice and expertise of a qualified professional in the accounting or legal fields. Working with a qualified professional is strongly recommended.

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The International Glossary of Business Valuation (“Glossary”) defines premise of value as “an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject business enterprise is expected to continue to operate in the foreseeable future.”

A. Going concern value — The Glossary defines this as “the value of a business enterprise that is expected to continue to operate in the foreseeable future.”

B. Liquidation value — The Glossary defines this as “the net amount that would be realized if the business is sold piecemeal. Liquidation can be either orderly or forced. In an orderly liquidation, the assets are sold over a reasonable time to maximize pro or liquidation value. In a forced liquidation, the assets are sold as quickly as possible, such as at an auction.”

Two main premises of value in business valuation:

1. Going concern value
2. Liquidation value

Primary premises of value:

A. Going concern value: The Glossary defines this as “the value of a business enterprise that is expected to continue to operate in the foreseeable future.”

B. Liquidation value: The Glossary defines this as “the net amount that would be realized if the business is sold piecemeal. Liquidation can be either orderly or forced. In an orderly liquidation, the assets are sold over a reasonable time to maximize pro or liquidation value. In a forced liquidation, the assets are sold as quickly as possible, such as at an auction.”
Standards of value under special circumstances

**Divorce**

i. Determine from counsel the specific state law governing the standard of value. May be fair market value, fair value or investment value.

ii. Be informed as to the treatment of or lack thereof adjustments for control and/or marketability (standard of value).

iii. Be informed if personal goodwill is permitted by the court.

**Dissenting shareholder**

i. **Definition** — Research state legislation that allows shareholders of a corporation the right to receive a cash payment for the fair value of their shares, in the event of a share conversion merger or acquisition to which the shareholders do not consent. Dissenters’ rights usually allow dissenting shareholders an equitable resolution to withdraw from a company if they do not want to be included in the merger.

ii. Be informed as to the treatment of or lack thereof adjustments for control and/or marketability (standard of value).

**Oppressed shareholder**

i. Definition is the unfair treatment of a minority shareholder’s interest by the control shareholder(s). It may involve the lack of receiving timely financial statements, detrimental financial decisions, lack of distributions, having shareholder meetings without the minority interest, etc.

ii. Determine from counsel the specific state law governing the standard of value.

iii. Be informed as to the treatment of or lack thereof adjustments for control and/or marketability (standard of value).
7. The estimated amount, expressed in terms of money, that may be reasonably expected for a property, in an exchange between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts.

ii. The estimated amount, expressed in terms of money, that may be reasonably expected for an installed property, in an exchange between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts, including installation and other assemblage costs.

B. Fair market value

1. Fair market value (statute law) — for state legal matters only.

2. Fair market value (financial reporting) — for general use.

iii. The estimated amount, expressed in terms of money, that may be reasonably expected for a property, in an exchange between a willing buyer and a willing seller, with neither under any compulsion to buy or sell and both fully aware of all relevant facts, as of a specific date.

D. Fair market value — removal — The estimated amount, expressed in terms of money, that may be reasonably expected for a property in an exchange between a willing buyer and a willing seller, with neither under any compulsion to buy or sell and both fully aware of all relevant facts, as of a specific date, in a mass assemblage of assets, but not in a going-concern business enterprise.

A. Fair market value — assemblage of assets — Value in place.

B. For federal tax purposes, U.S. Treasury Regulations define fair market value as:

"...the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length, with neither under any compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."
Standards of value

Standard of value (reasons for the valuation)
The Glossary defines this as “the identification of the type of value being used in a specific engagement; for example, fair market value, fair value, investment value.”

1. Fair market value
   A. For general use, the Glossary defines this as:
   “...the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”
   (NOTE: In Canada, the term “price” should be replaced with the term “highest price”).

   ii. Fair value measurement assumes the hypothetical transaction occurs in a principal market, “the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability.” In the absence of a principal market, the asset or liability is assumed to be transferred in the most advantageous market, “the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s).”

Other premises of value
Other valuation considerations

A. Value in use
   - The value of real estate to a particular entity; for example, pharmaceutical manufacturing plant.

B. Highest and best use
   - ASC 820 defines highest and best use as the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used. Highest and best use is determined based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

   i. In-use
      - The highest and best use of the asset is in-use if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group (as installed or otherwise configured for use).

   ii. In-exchange
      - The highest and best use of the asset is in-exchange if the asset would provide maximum value to market participants principally on a standalone basis.