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**ASSIGNMENT:  
ISSUES AND CHALLENGES IN INDUSTRIAL VALUATION**

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## **1.0 INTRODUCTION**

In recent years, much has changed in the fields of industrial property use and development. A lot improvements and upgrading has been tenable within these years which has in the same vein instigated several issues and challenges in industrial land management and valuation.

Valuation could be defined as the art of estimating the fair monetary worth of a property/asset for a specific purpose, at a specific time. In other words, valuation is an unbiased opinion of value or monetary worth of an identified property.

Having this in mind, valuing industrial properties features a comprehensive survey of the different factors a valuer must consider when valuing industrial properties and it ranges from the topics of highest and best use consideration, environmental issues relating to industrial processes, legal issues such as zoning, eminent domain and real estate taxation (Appraisal Institute, 2016).

The increasing specialization of industrial property use and development presents valuers with a whole new range of considerations in the valuation process in order to navigate a successful course through the challenges posed by the evolution of industry in the 21<sup>st</sup> century.

## **2.0 LITERATURE REVIEW**

### **2.1 PLANT, MACHINERY AND EQUIPMENT VALUATION**

The field of plant, machinery and equipment valuation is one of the most challenging of all valuation specializations just as the opportunities are as great as the variety of experience the field requires (Alico, 1968). Plant, machinery and equipment as a strategy for achieving optimum productivity refers to facilities used in any industry facility for manufacturing and designed to perform a specific predetermined function, whether used individually or in combination with other items and includes all devices fixed or moveable, other than real estate deployed, in manufacturing, processing or assembling of products from the state of raw materials to finished goods. The nature of undertaking may be anything ranging from oil refinery to water

purification and packaging to biggest shopping mall or department store to the smallest hair dressing salon (Battah, Iwenofu & Kwali 2010).

As such the valuation of plant, machinery and equipment in such establishments becomes a complex process and requires a thorough knowledge of functions and construction of the machine, its useful economic life, factors which render it useless or efficient in its performance, technological improvement in its function and condition, etc.

A competent plant, machinery and equipment valuer will always encounter different unique and challenging assignments. He must therefore be very analytical and quick to capture the critical issues in this valuation undertaking. This requires both technical and economic knowledge of the subject plant, machinery and equipment (Otegbulu, 2008).

## **2.2 INTANGIBLE ASSET VALUATION**

According to Ikedianya (2003), a business enterprise entity is rightly made up of two components. "The first component is its static, tangible property asset commodities belonging to her, whose values are usually indicated in the conventional asset valuation methodology and the second component is her soul, spirit or spiritus usually depicted in terms of her performance of Operation Efficiency Coefficient ( $O_e$ )".

Most times, the Estate surveyors and valuers are commissioned to handle the valuation of assets with due regards given to the various components of all assets. They tend to highlight only the physical assets while deemphasizing the contribution of intangible assets, typically represented by "Good-will" (Ezeudu, 2003).

Bigg and Perrins (1971) gave the accountant's definition of goodwill as the element arising from the reputation; connection or other advantages possessed by a business which enable it to earn greater profits than the return normally to be expected on the capital represented by the net tangible assets employed in the business.

Emphases are not usually made on the risks involved, time cost/value, fair management remuneration and any other relevant circumstance.

In assessing the return normally expected, emphases must be made on the nature of the business, the risks involved, fair management remuneration and any other relevant circumstance (Ezeudu, 2003).

As have previously been stated, Goodwill is a typical example of intangible asset. Factors that are responsible for the existence of goodwill in a business organization according to Bigg and Perrins (1971) may include:

- The location of the business premises
- The nature of the firm's products or reputation of its services
- The possession of efficient and contented employees
- The personal reputation of the owner(s)
- The possession of trade-marks, patents or a well-known business name.
- The continuance of advertising campaigns
- The maintenance of the equality of the firm's product and development of the business with changing conduction
- Freedom from legislative restriction

### **2.3 INSIDE THE VALUATION PROCESS**

According to Battah, Iwenofu and Kwali (2010), there are two extreme views of the valuation process. At one end are those who believe that valuation, done right, is a hard science, where there is little room for valuers' views or human error. At the other end are those who feel that valuation is more of an art, where valuers can manipulate the numbers to generate whatever result they want.

The truth does lie somewhere in the middle and a rectitudinous attention is deserved in these three components of the valuation process. According to Appraisal Institute (2016), they are:

- The bias that valuers bring to the process
- The uncertainty that they have to wrestle with

- The complexity that modern technology and easy access to information have provoked into valuation.

#### **2.4 UNETHICAL PRACTICES IN VALUATION**

Valuation has so many specializations and no one valuer can claim to do all valuation, therefore there is a need for valuers to carry out valuation in their area of co-competence. A situation where a valuer does valuation which is not in his area of co-competence is quackery, and it should be viewed as an unethical practice. It is this unethical practice that led to the failure of the privatized government owned agencies like NITEL, NEPA, Ajaokuta steel, the Refineries etc. The action resulted in gross under-valuation and loss of revenue to government (Degruyter, 2016).

It is also an unethical practice for compensation or fees of a valuer to be based on percentage of the outcome of his valuation. This kind of practice makes an outcome of a valuation to be loaded with biases as earlier discussed. The practitioners of valuation in the country should base their fees on man-hour in line with international best practices (Erepository, 2016).

#### **2.5 LOW PATRONAGE OF ACCREDITED INDUSTRIAL VALUERS**

Industrial valuation is needed for legal and tax purposes, merger and take-over, insurance, insolvency, internal performance analysis, floatation, mortgage, commercialization, privatization, nationalization, in portfolio management, buying and selling of second hand properties, etc. it has been observed that most private and public industrialists do the above work without looking for accredited industrial valuers. There are inadequate accredited industrial valuers in the country to commensurate the need of their professional services.

#### **3.0 METHODOLOGY**

The methodology here talks about the procedures undertaken in carrying out this research assignment. The researchers made use of the doctrinal (didactic) approach in

building up this research work. The doctrinal (didactic) approach denotes deducing and amassing theories, statement of facts, philosophies, phenomenon from textbooks, journals, newspaper articles, magazines, lectures notes and information from the libraries, on-line and off-line.

#### **4.0 RESULTS**

The researchers succeeded in discovering several severe issues and challenges in industrial valuation which features plant, machinery and equipment valuation, intangible assets valuation, inside the valuation process, unethical practices in valuation and low patronage of accredited industrial valuers.

#### **5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

##### **5.1 SUMMARY OF FINDINGS**

Some findings were obtained from the literatures reviewed and materials consulted.

They are as follows:

- Plant, machinery and equipment valuation carried out in industrial valuation is very complex and the most challenging in all valuation specializations.
- It requires a thorough knowledge of functions and construction of the machine, its useful economic life, causes which render it useless or efficient in its performance, technological improvement in its function and condition.
- Valuers tend to highlight only the tangible assets while deemphasizing the contribution of intangible assets, typically represented by “Good-will”.
- Emphases are not usually made on the risks involved, time cost/value, fair management remuneration and any other relevant circumstance.
- The valuation process is faced with the bias that valuers bring to the process, the uncertainty that they have to grapple with, the complexity that modern technology and easy access to information have introduced into valuation
- A situation where a valuer does valuation which is not in his area of co-competence is quackery.

- It is an unethical practice for compensation or fees of a valuer to be based on a percentage of the outcome of his valuation in lieu of man hour.
- It has been observed that most private and public industrialists do their valuation works without looking for accredited industrial valuers.

## **5.2 CONCLUSION**

Industrial valuation as paramount as it is to the success of any industrial establishment poises the relevance of the Estate surveying and Valuation profession in this present dispensation. It is not sacrosanctly known how much is being lost every now and then due to the prevailing issues and challenges confronting industrial valuation.

It would be unreligious and demeaning to leave these issues and challenges constantly dominating.

Valuers should come forward and be completely trained so as to possess their possessions. As the Scripture said, “the harvest is plenty but the laborers are few”. Valuers are enjoined to join the laborers in the vineyard of valuation.

## **5.3 RECOMMENDATIONS**

In the light of the findings the following recommendations are made although not categorically decisive:

- There should be more advanced efforts in the training and educating of plant, machinery and equipment valuers.
- Valuers should do very well to acquire thorough knowledge of functions and construction of the machine, its useful economic life, causes which render it useless or efficient in its performance, technological improvement in its function and condition.
- Valuers should not highlight only the tangible assets while deemphasizing the intangible assets in industrial valuation; they should also emphasize the contribution of intangible assets, typically represented by “Good-will”.



- Emphases should be made on the risks involved, time cost/value, fair management remuneration and any other relevant circumstance.
- Measures should be adopted by the institution to correct these irregularities in the valuation process, the bias that valuers bring to the process, the uncertainty that they have to grapple with and the complexity that modern technology and easy access to information have introduced into valuation.
- Valuer should be advised to engage only in valuation which is in his area of co-competence.
- Valuers should be advised against the unethical practice for compensation or fees to always commensurate with the outcome of his valuation in order to avoid a biased opinion of value and more enlightenment should be given to the public on the ethics of valuers' professional charges.
- Accredited industrial valuers need to educate and enlighten the public and institutions on the value addition of their services.
- Valuers should be encouraged to avail themselves of the opportunity that exist in the field.

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