

GUIDEBOOK OF BASIC TERMS USED IN THE VALUATIONS OF EQUIPMENT ASSETS



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OUR COMPANY

Hammond & Company is a Tulsa Machinery and Equipment Appraisal Service that will



prioritize its efforts towards meeting the valuation needs of Asset Lenders, Accountants, Business Valuators, Commercial Appraisers, Financial Professionals, and Insurance and Legal Service Providers located in Tulsa, Oklahoma City, Fayetteville, Little Rock, the downstream markets of Dallas, Houston. We can provide coverage to the Gulf Coast regions and California markets of San Francisco,

Monterey & Bakersfield. We endeavor to be an industry leader by implementing data and building technologies into our valuations and can give service to professionals working in global markets in providing asset appraisals of in the languages of Spanish and French. Our Downtown Tulsa location serves as the center of operations in the providing of Equipment Appraising Services to industry professionals to the sectors of Construction, Manufacturing, Transportation, and Health Care.



We engage our professional experience in our appraisals of equipment assets. Our cost estimating expertise on large projects gives us an understanding of a subject property's capacities, and its functional capabilities. Our extensive work history, with its product knowledge, gives us additional insights when performing valuations, which provides benefits to our clients.

Hammond & Company promotes the values of the American Society of Appraisers while abiding by the Uniform Standards of Professional Appraisal Practice (USPAP).



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Mark applies his efforts is the application of technologies into his asset reporting while seeking accreditation in Appraisal Review and Management. Civic endeavors are the promoting of economic and educational opportunities for the Tulsa Region and the rural communities of Southeastern Oklahoma.



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Mark E. Hammond Sr., ASA prepared this guide book whose purpose is to provide the utilized descriptions and terms used in the asset appraisals of Machinery and Equipment. The intended use of the guidebook is for informational purposes only and not for any commercial applications.

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Section I: Introduction

Ad Valorem is a term that regards the levying of taxes expressed as a percentage of the sales price or an assessed value by local governments. At a recent conference of tax professionals who represent interests of a business's personal property addressed their concerns regarding ad valorem assessments to the attending state officials. A significant amount of the dialogue involved the factors of obsolescence with its effect on a subject asset under an appraisal. My concern while listening to the exchanges was the need to give a potential appraisal user at the local level specific information regarding an appraisal's development and the importance of its reporting. My efforts went towards organizing and compiling data into a resource manual in giving insights into an appraisal's progress with its significant factors that could have a substantial impact on asset valuation.

The purpose of this resource manual is to guide a prospective user of an appraisal in giving relevant terms, which promotes further understanding in the development of appraisal's values and emphasizes the required criteria in its reporting. The guidebook's sections contain content regarding an appraisal's Approaches to Value, its Definitions of Value, Equipment Ratings, a basic description of USPAP with its definitions, and a Glossary of Appraisal Terms used in the reporting. The manual's content is from various publications from the American Society of Appraisers and the 2018-2019 USPAP. The purpose of the USPAP is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers (USPAP, 2018, p.1). The resource manual is for informational purposes only and is not intended as a definitive statement of the theory and appraisal methods.

An essential requirement in asset valuations is the assurance that when performing an appraisal, it is by those individuals with credible accreditation through education, industry training, and extensive work history. The American Society of Appraisers (ASA) ensures that I, as one of its accredited members when performing an appraisal, will meet their ethics and standards in providing "a high level of public trust in appraisal practice" (USPAP, 2018, p.1). The ASA also gives the following guidance; The valuation process and approaches must be performed by competent appraisers; no appraisal may be taken as a "cookbook" process or approach which would apply to any other appraisal. The basis of every appraisal must be with factual knowledge and circumstances of the subject asset(s) within their environment. A valuation process or approach which is relevant for one asset within a specific timeframe time could not be appropriate for another asset (ASA, 2011, p. 8). The ASA's provide information concerning appraisal work, education, and referrals to appraisers within the various disciplines at their website: www.appraisers.org

Section II: Appraisal Reporting

An appraisal is an unbiased opinion of the value of an identified property, which basis involves its investigation and analysis of any relevant data and applying the appropriate analytical technique in the reaching of a conclusion of value. The content in this section provides a basic overview of the appraisal report's content with its development and analytical processes in the reaching of a value conclusion. An appraisal should not be considered as an absolute, but its use could be a viable component when involved parties negotiate their mutual interests.

The American Society of Appraisers (ASA) has broadened the definition of an appraisal to include any of the four following operations, independently or in combination:

1. Determination of the value of the property.
2. Estimation of the cost of (a) production of a new property, (b) replacement of an existing property by purchase or production of an equivalent property, or (c) reproduction of an existing property by purchase or production of an identical property.
3. Determination of the nonmonetary benefits or characteristics that contribute to value; the rendering of judgments as to age, remaining life, condition, quality, or authenticity of physical property.
4. Forecast of the earning power of the property. (ASA p.9)

The Appraisal Report

The appraisal reporting process begins when an appraiser fully understands and identifies the appraisal problem and concludes when the appraiser reports their solution to the client. Problem-solving within the valuation analysis is dependent on the type of appraisal engagement with its availability of data. The goal of any valuation process is the producing of a credible opinion of value that shows an appraiser considers all factors that affect an asset's value, which is under an appraisal when reaching their opinion of value.

The following content provides the format of a written personal property and the necessary criteria to ensure compliance with the 2018-2019 Uniform Standards of Professional Appraisal Practice (USPAP) 2018-2019 USPAP Standard 8: Personal Property Appraisal, Reporting
Standard Rule 8-2

Each written personal property appraisal report must be prepared under one of the following options and prominently state which options is used: Appraisal Report or Restricted Appraisal Report.
Standard Rule 8-2a i through xii

A written or oral report prepared under Standards Rule 8-2-a-i through xii must contain the following:

- i) state the identity of the client, unless the client has specifically requested otherwise, state the identity of any intended users by name or type;
- ii) state the intended use of the appraisal;
- iii) summarize information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;
- iv) state the property interest appraised;
- v) state the type and definition of value and cite the source of the definition;
- vi) state the effective date of the appraisal and the date of the report;
- vii) summarize the scope of work used to develop the appraisal;
- viii) summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;
- ix) state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal;
- x) when an opinion of the appropriate market or market level was developed by the appraiser, describe the support and rationale for that opinion;
- xi) clearly and conspicuously:
 - state all extraordinary assumptions and hypothetical conditions; and
 - state that their use might have affected the assignment results;
- xii) Include a signed certification in accordance with Standards Rule 8-3.

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Restricted Appraisal Report

The content of a Restricted Appraisal Report must be consistent with the intended use of the appraisal and at a minimum:

- i) state the identity of the client, unless the client has specifically requested otherwise, and state a prominent use restriction that limits use of the report to the client and warns that the rationale for how the appraiser arrived at the opinions and conclusions set forth in the report may not be understood properly without additional information in the appraiser's workfile.

Section III: Approaches to Value

The recognized *Approaches to Value* are interrelated in that each approach will require gathering and analysis of sales, activity, and any value data relevant to the appraisal's subject assets. During an appraisal analysis, an appraiser will derive data from the separate indicators used in the valuation of the subject assets. The use of one or more recognized *Approaches to Value* in a valuation assignment is dependent on their applicability to the appraisal assignment. The appraiser in the valuation process will integrate market research and an asset's technical information in developing a data analysis that applies recognized appraisal methodologies in the establishing of an unbiased opinion of value. Using interdisciplinary approaches in an appraisal that summarize the information's analysis, while employing appraisal methods and techniques with a reasoning that supports the analyses, opinions, and conclusions (2018-19, USPAP, p. 51) will lead towards an appraisal reaching a final the conclusion of value.

The USPAP identifies the recognized Approaches to Value as the standard theoretical concepts and systematic methods for utilization in asset valuations. An appraisal will utilize conventional Approaches to Value when developing an appraisal. The conventional approaches to value are known as the Cost Approach, Sales Comparison, and Income Approach. These recognized valuation methodologies are a standard of financial institutions, the courts, tax agencies, insurance, and the business community. The basis of employing the Approaches to Value in valuations is the principle of substitution, "a prudent buyer will not pay more for an asset than the cost of acquiring a substitute property of equivalent utility" (ASA, 2011, p. 551). The following paragraphs in this section will describe the three standard Approaches to Value and their applicability to an appraisal assignment.

The Cost Approach

Using the Cost Approach, an appraiser will begin with the current *Replacement Cost New* or *Reproduction Cost New* of the subject property under an appraisal then deducts for any losses in value due to physical deterioration, its functional obsolescence, and possible economic obsolescence. As previously stated, the logic behind this approach is the principle of substitution; a prudent buyer will not pay more for a property than the cost of acquiring a substitute property of an equivalent utility. In its simplest form, the cost approach is the current cost (as if new) less all types of depreciation. The appraiser identifies the property under the appraisal ("subject"), then develops its current *Replacement or Reproduction Cost New*, and then subtracts all depreciation that makes it less desirable to own than if it were new or any other factors that may make it less desirable to own. The principle can be applied either to an individual asset or to an entire facility. The Cost Approach is a "procedure to estimate the current costs to reproduce or create a property with another of comparable use and marketability" (ASA, 2019, para. 5).

The 2018-2019 USPAP Standards Rule 7-4 (b) states, when a cost approach is necessary for credible assignment results, an appraiser must:

- i. analyze such comparable data as are available to estimate the cost new of the property, and
- ii. analyze such comparable data as are available to estimate the difference between cost new and the present worth of the property (depreciation), (p. 46).

The Sales Comparison Approach

The appraisal, when valuing, will use the sales comparison approach to indicate value by analyzing recent sales (or offering prices) of properties that are similar to the subject property. If comparable properties are not similar to the properties which under the appraisal, an adjustment to the selling prices of the comparable properties will occur to equate them to the characteristics of the properties, under the appraisal. The Sales Comparison Approach in asset valuations is “a procedure to conclude an opinion of value for a property by comparing it with similar properties that have been sold or are for sale in the relevant marketplace by making adjustments to prices based on marketplace conditions and the properties’ characteristics of value” (ASA, 2019, para. 4). The 2018-2019 USPAP Standards Rule 7-4 states,

- a) When a sales comparison approach is necessary for credible assignment results, an appraiser must analyze such comparable sales data when available to indicate a value conclusion” (p. 46).

The Income Approach

The Income Approach “is a procedure to conclude an opinion of present value by calculating the anticipated monetary” (ASA (b), 2019, para. 6). The value of a property can be estimated by measuring its expected future benefit to its owner, which requires the appraiser during the appraisal to establish reliable income data for the subject asset and lists its expenditures. It is often considered hypothetical to employ the Income Approach in the valuation of Machinery and Equipment. The 2018-2019 USPAP Standards Rule 7-4 (c) provides that when an income approach is necessary for credible assignment results, an appraiser must:

- i. analyze such comparable data as are available to estimate the market income of the property;
- ii. analyze such comparable operating expense data as are available to estimate the operating expenses of the property;
- iii. analyze such comparable data as are available to estimate rates of capitalization and /or rates of discount; and;
- iv. base projections of future income and expenses on reasonably clear and appropriate evidence.

Additional Considerations When Valuing Machinery & Equipment

The following listed items are additional considerations that could affect the subject asset's appraisal value. Each factor that could impact an asset's value is provided with a description and its applicability in the appraisal.

Highest and Best Use

The most probable and legal use of a property (including machinery and equipment), which is physically possible, appropriately supported, financially feasible, and that results in the highest value. (The four criteria that highest and best use must meet are legally permissible, physically possible, financially feasible, and maximally profitable.) (ASA, 2011, 529)

Exposure Time

Exposure Time is the estimate of the length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Chronological Age

The American Society of Appraisers (ASA), (2011) defines the chronological age as "the number of years that have elapsed since an item or property was originally built or placed in service for the first time" (p. 512). "Actual age" could be used in place of "chronological age" in the reporting of assets.

Effective Age (EA)

The apparent age of a property in comparison with a new property of like kind; that is, the age indicated by the actual condition of a property. Effective age is calculated by deducting the Remaining Useful Life of an asset from its Normal Useful Life (ASA, 2011, p. 520).

Normal Useful Life (NUL)

The physical life, usually estimated in terms of years, that a new property will be used before it is retired from service. A property's normal useful life relates to how long similar properties actually tend to be used, as opposed to the more theoretical economic life calculation of how long a property can profitably be used. (ASA, 2019, p. 545).

Remaining Useful Life (RUL)

"The estimated period during which a property of a certain effective age is expected to actually be used before it is retired from service" (ASA, 2011, p. 554).

Remaining Physical Life

The estimated period during which a property of a certain effective age is expected to physically endure before it deteriorates or fatigues to an unusable condition purely from physical causes, without considering the possibility of earlier retirement due to functional or economic obsolescence.

Obsolescence

A loss in value due to a decrease in the usefulness of property caused by decay, changes in technology, changes in people's behavioral patterns and tastes, or environmental changes.

Economic Obsolescence

A form of depreciation where the loss in value or usefulness of a property is caused by factors that are external to the property. These may include such things as the economics of the industry; availability of financing; loss of material and/or labor sources; passage of new legislation; changes in ordinances; increased cost of raw materials, labor or utilities (without an offsetting increase in product price); reduced demand for the product; increased competition; inflation or high-interest rates; or similar factors.

Functional Obsolescence

A form of depreciation in which the loss in value or usefulness of a property is caused by inefficiencies or inadequacies inherent in the property itself, when compared to a more efficient or less costly replacement property that new technology and changes in design, materials, or process that result in inadequacy, overcapacity, excess construction, lack of functional utility, and excess operating costs. Symptoms suggesting the presence of functional obsolescence are excess operating cost, excess construction (excess capital cost), over-capacity, inadequacy, lack of utility, or similar conditions.

Operating Obsolescence

A form of functional obsolescence that is caused by excess operating or manufacturing expenses.

Physical Depreciation or Deterioration

A form of depreciation where the loss in value or usefulness of a property is due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors. Physical depreciation may be curable (or partially curable), by replacement or rebuilding, to some percentage of its full physical life. If curable, the remaining life would go no lower than a core or re-buildable life. Cure or partial cure may then change the Effective Age of the property. If no replacement or rebuilding is economically feasible, the physical depreciation will be 100%. (Sometimes referred to as Physical Deterioration.)

Curable Depreciation

Depreciation in the form of deterioration and obsolescence that is economically feasible to remedy because the resulting increases in utility and value are equal to or greater than the expenditure. Curable depreciation is calculated by the “cost-to-cure.”

Incurable Functional Obsolescence

A defect caused by a deficiency or super adequacy in the structure, materials, or design of an item that cannot be practically or economically corrected.

Repairs

Costs incurred to keep the property in good condition, but that does not substantially extend the life or increase the value of a property.

Depreciation – Appraisal

Mathematical formula measure of a tangible asset’s loss of value over time to properly match revenues against the appropriated asset’s lost value (estimated expense). The actual loss in value or worth of a property from all causes, including those resulting from physical deterioration, functional obsolescence, and economic obsolescence. Depreciation may be curable or incurable. The estimated loss in value of an asset. (ASA, 2011, p. 517)

Extraordinary Assumptions

An Extraordinary Assumption is an assumption directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary Assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Hypothetical Conditions

A hypothetical condition is a situation directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results but used for purposes of analysis. Hypothetical conditions are contrary to known facts about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. There is an assumption that there are no hidden defects that are not discernible from a visual inspection and which could affect value. Issues resulting from the above condition could affect the assignment results.

Section IV: Definitions of Value Relating to MTS Assets

The section presents definitions, underlying themes, and elements which basis are in standard appraisal theory. These definitions provide the fundamental value concepts; they are not the only acceptable definitions. The definitions listed in this section could be expanded or refined to the appraisal's intended use, but without altering these fundamental concepts. There is a significant variation of assets that come under a Machinery and Technical Specialties (MTS) appraisal. Many of the MTS assets do not have permanency at a location, and that allows a subject's property's transport. The ability to transport an asset requires the appraisal to recognize varying Definitions of Value. The distinguishing of the anticipated use of an asset allows its classification into the following three categories:

- a) Sale for a removal for similar or alternate use,
- b) Continued (or as installed) use of the asset for the purpose for which it was designed and acquired, and
- c) Liquidation.

The term values are refined to create special definitions that fit the needs of a specific appraisal. The modifications provide for a particular definition of value, which will give guidance during the appraisal. The following lists of the various refinements to the definitions of value's terms that are used to fit the needs of the appraisal.

Sale for Removal or Alternate Use

Fair Market Value (FMV)

Fair Market Value is the estimated amount, expressed in terms of money (cash or financing terms equivalent to cash), that may reasonably be expected for a property in and the exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell and both fully aware of all relevant facts, as of a specific date.

Fair Market Value – Removal (FMV-R)

Fair Market Value – Removal is the estimated amount, expressed in terms of money, that may reasonably be expected for an item of property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell and both fully aware of all relevant facts, considering removal of the property to another location, as of a specific date.

Continued Use (or Capacity for Use)

Fair Market Value in Continued Use (FMV-CU)

Fair Market Value in Continued Use with Assumed Earnings is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither

being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming that the business earnings support the value reported, without verification.

Fair Market Value – Installed (FMV-IN)

Fair Market Value — Installed is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, considering market conditions for the asset being valued, independent of earnings generated by the business in which the property is or will be installed, as of a specific date.

Liquidation**Orderly Liquidation Value (OLV)**

Orderly Liquidation Value is the estimated gross amount, expressed in terms of money, that could be typically realized from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an “as is,” “where-is” basis, as of a specific date.

Forced Liquidation Value (FLV)

Forced Liquidation Value is the estimated gross amount, expressed in terms of money, that could typically be realized from a properly advertised and conducted the public auction, with the seller being compelled to sell with a sense of immediacy on an as-is, where-is basis, as of a specific date.

Liquidation Value in Place (LVP)

Liquidation Value in Place is an opinion of the gross amount, expressed in terms of money that typically could be realized from a properly advertised transaction, with the seller being compelled to sell, as of a specific date, for a failed, non-operating facility, assuming that the entire facility is sold intact.

Additional Value Definitions**Salvage Value**

Salvage Value is the estimated amount, expressed in terms of money that may be expected for the whole property or a component of the whole property that is retired from service for possible use elsewhere, as of a specific date.

Scrap Value

Scrap Value is the estimated amount, expressed in terms of money that could be realized for the property if it were sold for its material content, not for productive use, as of a specific date.

Insurance Cost New

Insurance Cost New is the replacement or reproduction cost new as defined in the insurance policy less the cost new of the items specifically excluded in the policy, as of a specific date.

Insurable Value Depreciated

Insurable Value Depreciated is the insurance replacement, or reproduction cost new less accrued depreciation considered for insurance purposes, as defined in the insurance policy or other agreements, as of a specific date (ASA, 2011, pp. 10-12)



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Section V: Definitions of Conditions Relating to MTS Assets (Equipment Ratings)

The American Society of Appraisers [ASA], (2011) guides an appraiser with a suggested set of terms and symbols to define the asset's condition. The Definitions of Conditions are given from by the ASA's extensive publications. The list is a suggested set of definitions and is for guidance purposes only. During a valuation, it may be required to establish whatever terms and coding when providing an opinion on the asset's condition. (p. 57).

New (N)

New (N) is a term used in the description of an asset, which is new equipment, uninstalled, and has not been put into service.

Excellent (E)

Excellent (E) is a term used in the description of an asset that is in a near-new condition and has had a minor service life.

Very Good (VG)

Very Good (VG) is a term used in the description of an asset of exceptional condition with full utilization capabilities within it's specified designed that is not requiring modification or any repairs. The asset is devoid of abnormal maintenance at the time of inspection or within a foreseeable period.

Good (G)

Good (G) is a term used in the description of an asset that is in satisfactory operating condition. The asset may or may not have received modifications or repairs while in use. The asset's capabilities are for use at or near its full design capabilities and specifications.

Fair (F)

Fair (F) is a term used in the description of an asset when in use operates below their full design and specifications. The effects of age and/or continued service may require the asset to have general repairs and possible replacement of minor components within a reasonable period, which will allow utilization at or near its original specifications.

Poor (P)

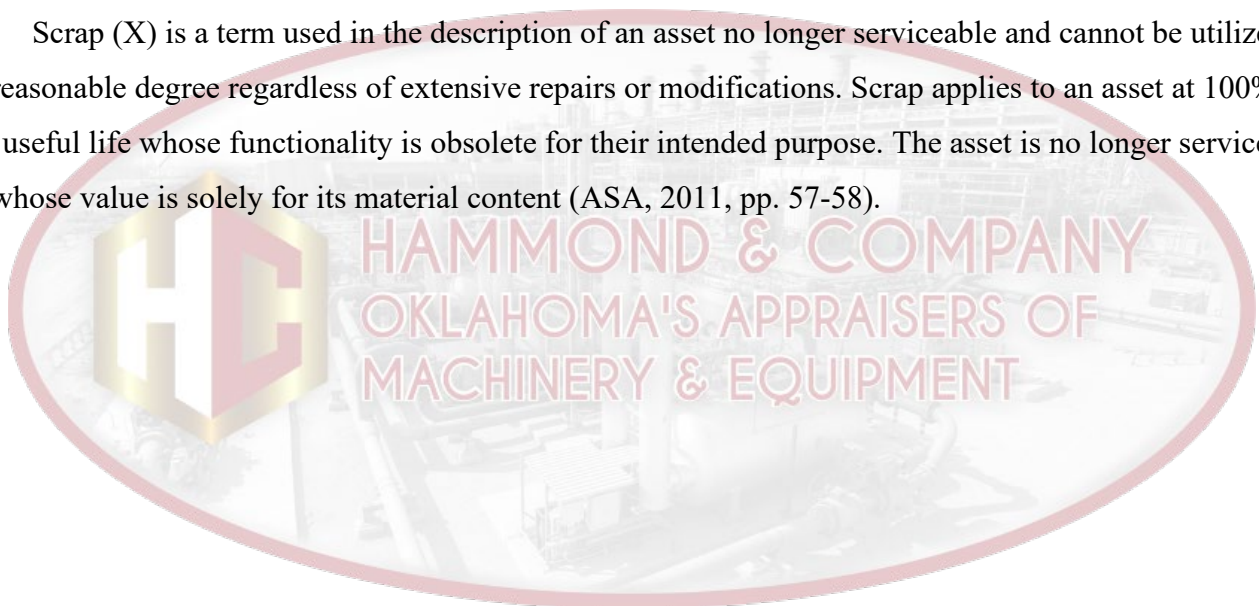
Poor (P) is a term used in the description of an asset whose intended use is at a capability is significantly less than their full design and specifications. The asset's condition will not realize full capacity without extensive repairs and/or the replacement of significant components.

Salvage (S)

Salvage (S) is a term used in the description of an asset retired from service whose value remains in the entire property; or a component of the whole property.

Scrap (X)

Scrap (X) is a term used in the description of an asset no longer serviceable and cannot be utilized to any reasonable degree regardless of extensive repairs or modifications. Scrap applies to an asset at 100% of their useful life whose functionality is obsolete for their intended purpose. The asset is no longer serviceable and whose value is solely for its material content (ASA, 2011, pp. 57-58).



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Section VI: USPAP Definitions

The Uniform Standards of Professional Appraisal Practice (USPAP) are standards established by the Appraisal Standards Board of the Appraisal Foundation. Developed in 1986–87 by the Ad Hoc Committee on Uniform Standards, they have been adopted by significant appraisal organizations and federal agencies in North America and are generally recognized as the accepted standards of appraisal practice. The USPAP 2018-2019 edition describes the definitions which may be contained in the language of the appraisal report (pp 3-6).

Appraisal

Appraisal (noun) is the act or process of developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

Comment. An appraisal must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

Appraisal Review

Appraisal Review (noun) is the act or process of developing an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment; (adjective) of or pertaining to an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment.

Comment. The subject of an appraisal review assignment may be all or part of a report, work file, or a combination of these.

Appraiser

Appraiser is one who is expected to perform valuation services competently and, in a manner, that is independent, impartial, and objective.

Comment. Such expectation occurs when individuals, either by choice or by requirement placed upon them or upon the service they provide by law, regulation, or agreement with the client or intended users, represent that they comply.

Appraiser's Peers

Appraiser's Peers is other appraisers who have expertise and competency in a similar type of assignment.

Assignment

Assignment is a valuation service that is provided by an appraiser as a consequence of an agreement with a client.

Assignment Conditions

Assignment Conditions are Assumptions, Extraordinary Assumptions, Hypothetical Conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the scope of work.

Comment. Laws include constitutions, legislative and court-made law, administrative rules, and ordinances. Regulations include rules or orders, having legal force, issued by an administrative agency.

Assignment Results

Assignment Results is an appraiser's opinions or conclusions developed specific to an assignment.

Comment. Assignment results include an appraiser's:
Opinions or conclusions developed in an appraisal assignment, not limited to valuation opinions or conclusions, developed in an appraisal review assignment, not limited to an opinion about the quality of another appraiser's work;
or opinions or conclusions developed when performing a valuation service other than an appraisal or appraisal review assignment.

Physical characteristics are not assignment results.

Business Enterprise

Business Enterprise is an entity pursuing an economic activity.

Business Equity

Business Equity are the interests, benefits, and rights inherent in the ownership of a business enterprise or a part thereof in any form (including, but not necessarily limited to, capital stock, partnership interests, cooperatives, sole proprietorships, options, and warrants).

Client

Client is the party or parties who engage, by employment or contract, an appraiser in a specific assignment.

Comment. The client may be an individual, group, or entity, and may engage and communicate with the appraiser directly or through an agent.

Confidential Information

Confidential Information is information that is either identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or classified as confidential or private by applicable law or regulation.

Cost

Cost is the amount required to create, produce, or obtain a property.

Comment: Cost is either a fact or an estimate of fact.

Credible

Credible is worthy of belief.

Comment. Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use.

Exposure Time

Exposure Time is the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Comment. Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.

Extraordinary Assumption

Extraordinary Assumption is an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions.

Comment. Uncertain information might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis.

Feasibility Analysis

Feasibility Analysis is a study of the cost-benefit relationship of an economic endeavor.

Hypothetical Condition

Hypothetical Condition is a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results but is used for the purpose of analysis.

Comment. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the

property, such as market conditions or trends; or about the integrity of data used in an analysis.

Intangible Property (Intangible Assets)

Intangible Property (Intangible Assets) are nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.

Intended Use

Intended Use is the use(s) of an appraiser's reported appraisal or appraisal review assignment results, as identified by the appraiser based on communication with the client at the time of the assignment.

Intended User

Intended User is the client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser, based on communication with the client at the time of the assignment.

Jurisdictional Exception

Jurisdictional Exception is an assignment condition established by applicable law or regulation, which precludes an appraiser from complying with a part of USPAP.

Market Value

Market Value is a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.

Comment. Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client's intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories:

- the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
- the terms of sale (e.g., cash, cash equivalent, or other terms);
- and the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value.

Mass Appraisal

Mass Appraisal is the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing.

Mass Appraisal Model

Mass Appraisal Model is a mathematical expression of how supply and demand factors interact in a market.

Personal Property

Personal Property is identifiable tangible objects that are considered by the general public as being "personal" - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.

Price

Price is the amount asked, offered, or paid for a property.

Comment: Once stated, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.

Real Estate

Real Estate is an identified parcel or tract of land, including improvements, if any.

Real Property

Real Property is the interests, benefits, and rights inherent in the ownership of real estate.

Comment. In some jurisdictions, the terms real estate and real property have the same legal meaning. The separate definitions recognize the traditional distinction between the two concepts in appraisal theory.

Report

Report is any communication, written or oral, of an appraisal or appraisal review that is transmitted to the client or a party authorized by the client upon completion of an assignment.

Scope of Work

Scope of Work: the type and extent of research and analyses in an appraisal or appraisal review assignment.

Signature

Signature is a personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for content, analyses, and the conclusions in the report.

Valuation Services

Valuation Services are services pertaining to aspects of property value.

Comment. Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value.

Workfile

Workfile is the documentation necessary to support an appraiser's analyses, opinions, and conclusions. (USPAP, 2018, pp 3-6)



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Section VII: Glossary of Appraisal Terms

Appraisal Consulting

The act or process of developing an analysis, recommendation, or opinion to solve a problem, where an opinion of value is a component of the analysis leading to the assignment results (USPAP page U-1).

Appraisal Date

The specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Valuation Date").

Appraisal Method

See Valuation Method

Appraisal Practice

Valuation services performed by an individual acting as an appraiser including, but not limited to, appraisal review or appraisal consulting, appraisal, review, and consulting.

Appraisal Procedure

The act, manner, and technique of performing the steps of an appraisal method.

Appraised Value

The appraiser's opinion or conclusion of value.

Appraised Value

The appraiser's opinion or conclusion of value.

Appraiser Certificate

Provides a signed certification that the statements of the appraisal reporting are true and correct with its analyses, opinions, and its conclusions which are limited by the reported assumptions with its limiting conditions.

Appraiser's Peers

Other appraisers who have expertise and competency in a similar type of assignment.

Assets

Tangible or intangible assets that are expected to be of benefit in the future.

Asset-Specific Factors

Those factors directly related to the specific asset itself.

(USPAP page U-2).

Assumption

That which is taken to be true (USPAP page U-2).

Assumptions and Limiting Conditions

A listing of specific assumptions and limiting conditions that are applicable to an appraisal.

Appraiser Certification

A document required in all USPAP-conforming appraisal reports, signed by the appraiser, whose signature certifies as to the accuracy of the information, objectivity of the appraiser, compliance with uniform standards, inspection of the property, and acknowledgment of those contributing to the preparation of the appraisal.

Comparables

Comparables refer to properties with characteristics that are similar to a subject property whose value is being sought.

Depreciable Cost

Historical or original cost of a property, less the estimated salvage value that can be obtained for the property at the end of its useful life.

Depreciated Replacement Cost (DRC)

The replacement cost new of an item, less accrued depreciation from all causes.

Depreciation (Accumulated)

Account in which accrued depreciation provisions are totaled to a given date.

Depreciation Expense

A noncash expense used to depreciate the cost of an item over a specific period of time.

Depreciation Rate

The rate or percentage used to calculate the depreciation charge.

Direct Costing

A method that assigns only variable manufacturing costs (direct materials, direct labor, and variable manufacturing overhead) to products; more appropriately termed variable costing.

Effective Date

The date at which the value opinion in an appraisal applies, which may or may not be the date of inspection or the date the report is issued.

Equipment

All machinery and other apparatus or implements used in an operation or activity.

Fiduciary

A person occupying a position of trust in relationship to another person or group of persons.

Fixture

An item of property that once was movable but has since been installed or attached to the land or building in a rather permanent manner in such a way that it is regarded in law as part of the real estate.

Incurable Depreciation

Depreciation in the form of deterioration and obsolescence that is not economically feasible to remedy because the resulting increases in utility and value are less than the expenditure. Incurable depreciation is typically reflected as a percentage (%) estimate to allow for loss in value.

Indirect Costs

Costs indirectly incurred in the purchase and placement of an asset into functional use (This may include normal administrative costs, professional fees, financing costs during construction, insurance, security, training, architectural and engineering fees, and others, but it excludes all abnormal costs.)

Machine Tool

Any device, usually stationary, composed of a number of moving parts, at least partially automatic in action, and operated by power, used for turning, planing, shaping, milling, drilling, grinding, assembling, or otherwise performing useful work on material.

Machinery

A term encompassing man-made mechanical devices, usually powered, which are designed to create a product or in some manner alter the state of a material or partial product.

Machinery and Equipment (M&E)

The physical facilities available for production, including the installation and service facilities appurtenant, together with all other equipment designed for or necessary to its manufacturing and industrial purposes, regardless of method of installation, including all those items of furniture and fixtures necessary for the administration and proper operation of the enterprise.

Personal Property

Identifiable tangible objects that are considered by the general public as being "personal"-for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate (USPAP page U-4).

Physical Life

The number of years a new property will physically endure before it deteriorates or fatigues to an unusable condition purely from physical causes, without considering functional and economic obsolescence.

Principle of Substitution

A theory whereby a prudent purchaser would pay no more for a property than the cost of acquiring an equally desirable substitute in the market.

Property

The lawful right of ownership of future benefits from tangible and intangible assets. Any asset, including cash, the title to which is ordinarily transferable between parties.

Real Estate

Physical land and appurtenances affixed to the land including buildings, structures, standing timber, orchards, etc.

Replacement Cost New (RCN)

The current cost of a similar new property having the nearest equivalent utility as the property being appraised, as of a specific date.

Reproduction Cost New

The cost of reproducing a new replica of a property on the basis of current prices with the same or closely similar materials, as of a specific date.

Standard Costing

A procedure used to estimate the original cost of an asset by comparing it with the known average installed cost of an identical or similar unit at the estimated installation date of the subject property.

Statement of Assumptions and Limiting Conditions

The contingent and limiting conditions are a series of statements that are an integral part of report writing and will define what is to be performed when developing an appraisal. The section lists any additional considerations with its extraordinary assumptions and hypothetical conditions which have a potential to affect the assignment's results

Tangible Assets

Physical property such as land, buildings, machinery and equipment, and inventory.

Tangible Personal Property

An asset that maintains all rights that can be transferred to another party and that can be seen and felt.

Total Life

Total life may have three definitions depending on the age and use of an asset: A) For a new asset, it is the life in years that can be expected; B) For a used asset, it is the sum of the effective age plus the expected remaining life; and C) For an asset that has been removed from service, it is the actual number of years the asset was in service.

Trending

A method of estimating a property's reproduction cost new (not replacement cost new) in which an index or trend factor is applied to the property's historical cost to convert the known cost into an indication of current cost. Simply put, trending reflects the movement of price over time. Also back trending where the historical cost is estimated by applying a factor to the asset's reproduction cost (see Indexing).

Useful Life

The period of time over which property may reasonably be expected to perform the function for which it was designed.

Valuation

The act or process of valuing.

Value

The monetary relationships between properties and those who buy, sell or use those properties.



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Section VIII: Glossary of Accounting Terms

Abatement

Complete removal of an amount due, (usually referring to a tax abatement a penalty abatement or an interest abatement within a governing agency). A lessening or reduction of something.

Accelerated Cost Recovery Schedule (ACRS)

That portion of the Internal Revenue Code that sets forth tax depreciation deductions.

Accelerated Depreciation

A method of calculating depreciation in such a way that the amount of depreciation taken in each year is higher in the early years of an asset's life contrasted with straight-line depreciation where deductions are equal for each year of the life of the asset.

Account Payable

Amount owed to a creditor for delivered goods or completed services.

Account Receivable

Claim against a debtor for an uncollected amount, generally from a completed transaction of sales or services rendered. ³

Accounting Cycle

Composed of several accounting periods spanning over twelve consecutive months.

Accounting Equation

The equation for financial statements that reads $\text{assets} = \text{liabilities} + \text{owner's}$.

Accounts

Major groupings of assets that are similar in character.

Accounts Payable

The bills you owe to others for goods or services.

Accounts Receivable

The amounts owed to you by others.

Accrual basis

An accounting method where transactions are recorded as they occur regardless of when payment is made or receive

Accrued Depreciation

The total value loss from all causes, including value loss from physical deterioration, functional obsolescence, and economic (external) obsolescence.

Accumulated Depreciation (Book Depreciation)

An accounting term that represents the total depreciation taken against the cost of an asset since it was acquired as of a given date, i.e., the running balance of the depreciation taken on an asset.

Acquisition Date

The effective purchase date of an asset.

Actual Cash Value

In property and auto physical damage insurance, one of several possible methods for establishing the value of insured property to calculate the premium and determine the amount the insurer will pay in the event of a loss. Although the term is seldom defined in the policy, the generally accepted insurance definition of actual cash value is the cost to repair or replace the damaged property with materials of like kind and quality, less depreciation of the damaged property. Courts have differed as to whether depreciation includes economic obsolescence as well as actual physical depreciation. (Also see Insurable Value Depreciated.)⁴

Ad Valorem Tax

An ad valorem tax is a tax based on the value of real estate or personal property.

Adjusted Gross Income

Gross income reduced by business and other specified expenses of individual tax-payers.⁵

Advocacy

Representing the cause or interest of another, even if that cause or interest does not necessarily coincide with one's own beliefs, opinions, conclusions, or recommendations.

Aftermarket

The sale of something after it is originally placed on the market for sale.

Age

The period that reflects the elapsed time from the date of installation to the date of observation of an asset.

Age/Life Analysis

An arithmetic process used to calculate a property's expired life and/or remaining useful life.

Agency

A legal relationship between an agent and a principal in which the agent is authorized and compelled to act on behalf of the principal.

Aggregate Index

This index measures a selected group of items whose total cost at a point in time is compared with the total cost in the base period. It may be unweighted or weighted and considers total costs (a basket of goods).

Air Carrier

A person who undertakes directly by lease, or other arrangement, to engage in air transportation.

Aircraft

A device that is used or intended to be used for flight in the air.

Airframe

Combination of fuselage, boom, nacelles, cowlings, airfoil surfaces, landing gear, and controls.

Airplane

An engine-driven fixed-wing aircraft.

Airworthiness Certificate

The certificate carried in the airplane that indicates the aircraft is allowed to operate and its category.

Allocation

A method of separating an asset's value or expenditures among companies or individual line-items.

Allocation of Purchase Price

Refers to the allocation of the lump sum paid to each asset acquired.

All-or-None Bid

A bid for a number of different items in which the bidder will not accept a partial award, but only an award for all the items, services, etc. included in the bid.

Amortization

The measure of an intangible asset's loss of value over time by a mathematical formula to properly match revenues against the appropriated value of the asset.

Annuity

A series of payments of an equal, or constant, amount of money at fixed intervals for a specified number of periods. A series of equal payments over time.

Appreciation

An amount representing the increase in value resulting from changes in market conditions or demand for a property over time

As-is, Where-is

A term reflecting the purchase of an item in its present condition and location. Any costs associated with dismantling and removal are not considered.

Assessed Value

The value of property assigned by the local assessor for property tax purposes.

Asset-Based Approach

A valuation process of a business where assets and liabilities are measured at current market value and intangible assets are added.

Asset Depreciation Range (DPR)

The range of depreciable lives permitted by the Internal Revenue Service for specific classes of assets. (ACRS tax depreciation has replaced depreciation using the ADR depreciation.)

Asset Depreciation Range (ADR) – Leasing

Refers to regulations under the Internal Revenue Code Section 167 (m) which permits shorter or longer than usual life to be used for tax depreciation.

Assumed Earnings

A term used to signify that the assets being appraised are assumed to be capable of generating an income sufficient to justify their appraised value.

Auction

A public sale of property where the contract of sale is formed by means of competitive bids, submitted, and confirmed according to the pre-established terms and conditions that govern the auction sale. The auctioneer is the person who conducts the sale and is property of others. When selling property on behalf of another person, an auctioneer is an agent of the seller for most purposes, but the auctioneer is an agent of both the seller and buyer for the purpose of preparing and signing memoranda of sale.

Audit

Examination of the financial reporting statements, processes and controls to produce those financial statements.⁶

Average Cost Method

Average cost is an inventory costing method based on the average cost of inventory during the period and the average cost is determined by dividing the cost of goods in inventory by the number of units of the same type in inventory at any point in time.

Average Remaining Life

Average remaining term of service for asset(s) under investigation, usually expressed in years.

Balance Sheet

Financial report that provides a snapshot of a business's position at a given point in time, including its assets (economic resources), its liabilities (debts or obligations), and its total or net worth (assets less liabilities).

Band of Investment

Weighted average cost of equity and debt. (See Weighted Average Cost of Capital.)

Bankruptcy

A legal proceeding, guided by federal law, designed to address situations where a debtor—either an individual or a business—has accumulated obligations so great that he or she is unable to pay them off.

Bargain Renewal Option

A provision in a lease that allows the lessee, at their option, to renew the lease for a rental rate sufficiently lower than the fair rental rate for the property at the time the option becomes exercisable so that the exercise of the option appears, at the inception of the lease, to be reasonably assured.

Barrels per Calendar Day (BPCD)

The maximum amount a process unit or oil refinery can process during a 24-hour period after making allowances for downstream bottlenecks, types of inputs and products, environmental constraints, turnarounds, and general maintenance and unscheduled downtime.

Barrels per Stream Day (BPSD)

The amount a process unit or oil refinery can process during a 24-hour period running at full capacity under optimal conditions.

Barter

The trading of goods or services directly for other goods or services, without using money or any other similar unit of account or medium of exchange.

Base Term

The basic term of the lease used by the lessor in computing payout and relied upon by the lessee as the minimum time period during which the lessee will have the use and custody of the equipment.

Base Year

The first year to be considered in any set of data.

Basis Point

A way of quoting the yield on a bond, note, or other debt instrument. There are 100 basis points in 1%, therefore one basis point is equal to 0.01%.

Beginning Inventory

Merchandise on hand for sale to customers at the beginning of the accounting period.

Beta

The measure of the volatility of the subject investment's return relative to the volatility of returns in the marketplace as a whole.

Betterment

A making or becoming better, an improvement that adds to the value of a property or facility (Webster's Ninth New Collegiate Dictionary).

Bias

A preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an assignment (USPAP page U-2).

Bill of Materials

The items necessary to make an end product. [These items are usually identified by stock keeping units (SKUs) and may create another SKU (the finished item). See SKU.]

Blendstocks

Component materials that are mixed with the finished products to improve the quality of the products.

Bona Fide

A Latin term meaning "good faith". In legal terms, it is often used to refer to a purchaser or holder who takes something without fraud, deceit, or knowledge of a lien or superior claim by another.

Book Value of an Asset

Cost of an asset (the amount that was paid for it) minus accumulated depreciation for financial accounting purposes.

Book Value of Stock

The book value of the assets of a company less the liabilities. Can be translated into book value per share by dividing by the number of shares outstanding.

Bundle of Rights

The normal rights of ownership and use without restriction as considered all cumulative rights, either jointly or severally. [Any severance of a right (such as the loss of a warranty, use of name or trademark, or other right normally transferred) can have an effect on value. See intangible personal property.]

Burdened Cost

Cost of materials, including freight in (cost to deliver to buyer), direct labor, and manufacturing overhead (cost of production), equal burdened cost for a manufacturing business. (Different companies may allocate burdened cost in different ways.)

Business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members or participants. (See Business Enterprise)

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses.

Business Enterprise (IVS)

A commercial, industrial, service, or investment entity pursuing an economic activity; generally, a profit-making enterprise. A business enterprise may be unincorporated (sole proprietorships, partnerships) or incorporated (closely held or publicly held), or take the form of trust arrangements or multiple entities. The ownership interest in a business may be undivided, divided among shareholders, and/or involve a majority interest and minority interest. Businesses may be valued by an asset-based approach, the income capitalization approach, or the sales comparison approach. 8 (See Going Concern.)

Business Enterprise

The providing of goods and services involving financial, commercial and industrial activity.

Business Enterprise Value

The value of the total invested capital (long-term debt and stockholder's equity) in an operating business. Nonoperating assets (i.e., excess land, idle equipment, etc.) are not included.

Business Interruption Insurance

A policy that pays a stipulated amount when the business cannot operate because of some insured disruption of operations.

Business Valuation

The act or process of determining how much a business is worth.

CAA

Clean Air Act

Capacity Costing

The method engineers use to estimate breakeven analyses based on units of production.

Capacity Creep

Small incremental increases in capacity over time.

Capacity Factor

As it pertains to plant electrical capacity – a ratio of electricity generated by a plant during a given time period to the electricity the plant could have generated if it had operated at its installed capacity during that period.

Capital

Cash or goods used to generate income.

Capital Asset

Any asset that has been capitalized on the company books.

Capital Asset Pricing Model (CAPM)

A method to calculate an equity return requirement based on the concept that any stock's required rate of return is equal to the risk-free rate of return plus the stock's risk premium. The basic CAPM model is reflected by the formula $E(R_i) = R_f + \beta(RP_m) + RP$.

Capital Expenditures (CAPEX)

Reserve of replacement or cash outflows necessary to support and maintain current operations.

Capital Expenditure

An improvement, as distinguished from a repair, with a life of more than one year.

Capital Gain (or loss)

A category of gain or loss under the tax law resulting from the sale or other disposition of specified property such as stock or bond investments, real estate, machinery and equipment, etc. It does not include property used in a trade or business.

Capital Lease

Under Federal Accounting Standards (FAS) 13, a lease meeting any of the following criteria: A) The lease transfers ownership to the lessee at the end of the lease term; B) The lease contains an option to purchase property at a bargain price; C) The lease term is equal to 75 percent or more of the estimated economic life of the property (there are exceptions for used property leased toward the end of its useful life); or D) The present value of minimum lease rental payments is equal to 90 percent or more of the fair market value of the leased property less related Investment Tax Credit (ITC) retained by the lessor.

Capital Structure

The make-up of the invested capital of a business enterprise.

Capitalization

A conversion of a single period of economic benefits into value. The procedure estimates value by dividing an anticipated income stream, in constant dollars, by a capitalization rate.

Capitalization Factor

See Capitalization Rate.

Capitalization Rate

A multiple divisor (usually expressed as a percentage) used to convert anticipated economic benefits of a single period into value. The annual rate of return on and return of capital, equivalent to the risk assumed by an investor. It is consistent with a discount rate less projected growth.

Capitalized Interest

Interest cost incurred during the time necessary to bring an asset to the condition and location for its intended use and included as part of the historical cost of acquiring the asset.

Capitalized Lease

A lease recorded as an asset acquisition accompanied by a corresponding liability by the lessee.

Cash Basis

Method of bookkeeping by which revenues and expenditures are recorded when they are received and paid.

Cash Basis of Accounting

Method of accounting in which sales and expenses are recorded only when payment is actually received or payment made as opposed to the accrual basis.

Cash Flow

Cash that is generated over a period of time by an asset, group of assets, or business enterprise.

Cash-Flow Analysis

A study of the anticipated movement of cash into or out of an investment.

Cash-Flow Assumption

An assumption regarding the flow of inventory costs through a firm's accounting system.

Cash Flow Statement

A financial statement that shows a company's sources and uses of cash during an accounting period.

Cash-on-Cash Return

Usually reserved for real estate income properties, it's the annual cash flow from the property divided by your cash investment. Sometimes called return on equity or equity dividend rate.

Casualty Value

A schedule included in a lease that states the agreed value of equipment at various times during the term of the lease, and establishes the liability of the lessee to the lessor in the event the leased equipment is lost or rendered unusable during the lease term due to a casualty loss.

Category (Inventory)

A method of indicating assets by an alphabetic type. (e.g., clothing, hardware, specified departments, etc.)

Caveat Emptor

A Latin term meaning “let the buyer beware.” It is a general rule of law that a purchaser assumes the risk of his/her purchase.

C Corporation

This type of general, for-profit corporation is referred to as a “C” corporation (referring to Chapter C in the IRS Code).

Ceiling (Inventory)

In lower of cost or market computations, market (replacement cost) cannot be higher than the ceiling (net realizable value). Net realizable value is selling price less selling costs and costs to complete.¹³

Chart of Accounts

The list of account titles used to keep accounting records.

Chronological Age

The number of years that have elapsed since an item or property was originally built or placed in service for the first time.

Class

A term used to identify types or groupings of property such as machinery, office furniture, rolling stock, etc.

Close Out

A sale usually at greatly reduced prices.

Closed-End Lease

A true lease in which the lessor assumes the risk of depreciation and residual value (The lessee bears little or no obligation at the conclusion of the lease. This is usually a net lease in which the lessee maintains, insures, and pays property taxes on the equipment. The term is used to distinguish a lease from an open-end lease, particularly in automobile leasing.)

Coinsurance

An arrangement under which the insured, in return for a reduced premium, agrees to share in the loss in the proportion that the insurance carried bears to a specified percentage of the property insured. In the case of a partial loss where the property is not insured for the indicated percentage of its cash value at the time of the loss, the recovery from the Company is based on a percentage.

Coinsurance Amount Limit

A requirement in an insurance policy that states that a minimum amount of insurance must be maintained, based on the type and amount of item being covered.

Coinsurance Clause

If at the time of a loss it is determined that the insured carried inadequate limits, the loss recovery will be a percentage of the total loss amount, calculated by dividing the actual insured amount by the required amount.

Collateral

An item of value that is pledged to guarantee repayment of a loan.

Commencement Date

The first day of the basic lease term.

Commodity

Uniform quality goods actively traded in the market that are most often used as inputs in the production of other goods or services such as crude oil, gasoline, wheat, and corn.

Common Size Statement

A financial statement that displays all items as percentages of a common base amount.

Comparative Sales Method

See Sales Comparison Approach.

Complexity

As it pertains to refineries – a measure of the relative construction costs of refinery process units as they relate to the atmospheric crude distillation unit.

Componentized Depreciation

The individual depreciation of the components of an asset to arrive at a total overall depreciation.

Compound Interest

Interest computed on the sum of an original principal and accrued interest.

Compounding

When doing income analysis, the process of determining future value is referred to as compounding.

Computer

An electronic tool used for rapid collection, organization, and communication of large amounts of information.

Condemnation

The actual process of the taking of private property for public purposes by a public body through the lawful use of its power of eminent domain.

Conditional Sale

A transaction for purchase of an asset in which the user, for federal income tax purposes, is treated as the owner of the assets at the outset and throughout the term of the transaction. (In leasing terminology, this is also called a conditional sale lease, or a lease intended as security.)

Conditional Sales Agreement (Lease)

See Conditional Sale.

Consigned Goods

Goods owned by one person or business that are being offered for sale by another person or business.

Consignee

Individual who receives the goods and offers them for sale; the one in possession.

Consignments (Inventory)

A marketing method in which the consignor ships goods to the consignee, who acts as an agent for the consignor in selling the goods. The inventory remains the property of the consignor until sold by the consignee.¹⁵

Consignor

Owner who delivers the goods for sale by another but retains title.

Constant Dollar Accounting

A method of accounting using an index to account for inflation-induced fluctuation in the value of the dollar; the method provides a historical view of the economic viability of an individual, enterprise, or government.

Consulting

The business of providing advice to clients for a fee in order to help them solve a particular problem or range of problems within a certain area of business.

Contingent Rentals – Leasing

Rentals in which the amounts are dependent upon some factor other than passage of time.

Contribution

The concept that the value of a particular component is measured in terms of its contribution to the value of the whole property, or as the amount its absence detracts from the value of the whole.

Contributory Value

The contribution a particular component adds to the whole property.

Conventional Leveraged Lease

A leverage lease of the type contemplated by Internal Revenue Procedure 75-2.

CORN

An acronym for Cost of Replacement New. See Replacement Cost New.

Corporation

A fictitious legal entity/person, usually created under the authority of state law, which is owned by its shareholders and his rights and duties independent of the rights and duties of real persons which is legally authorized to act in its own name through duly appointed agents.

Correlation

The process of evaluating conclusions developed from the three recognized approaches to value in an effort to arrive at a final conclusion of value. (See Cost Approach, Market or Sales Comparison Approach, and Income Approach.)

Cost

Total dollar expenditure for any asset. This includes labor, materials, legal services, architectural design, financing, taxes during construction, interest, contractor's overhead and profit, and entrepreneurial overhead and profit. The cost of a particular asset may be higher than, lower than, or equal to the asset's value.

Cost Center

Any organizational segment or area of activity for which costs are accumulated.

Cost of Goods Manufactured

The total of direct materials used, direct labor, and factory overhead that results in a finished product.

Cost of Goods Sold

The total cost of inventory sold during a specified period which includes the cost of obtaining raw materials and producing finished goods for sale.

Costing

Process of developing original or historical costs of assets for accounting purposes.

Current Asset

An asset that can reasonably be expected to last or be in use within one year.

Current Liabilities

Liabilities that are due to be paid within a year.

Current Value

1. Value of an asset at the present time as compared with the asset's historical cost.
2. In finance, the amount determined by discounting the future revenue stream of an asset using compound interest principles.

CWA

The federal Clean Water Act (CWA) is the basic statute regulating discharges of pollutants to waters of the United States by the National Pollutant Discharge Elimination System permits.

Cycle Counting

A method of taking inventory throughout a specific period of time as broken into time segments for specific areas or categories within a place of business.

Database

A group of collections of logically related items of information. Each collection is referred to as a record. Examples include mailing lists and vendor lists.

Debt-free

Interest and the repayment of debt principal are not included in the analysis.

Default

An event defined in a lease agreement as a default, such as failure to pay rent or perform some obligation required under the terms of a lease.

Deflation

A decrease in the general price level.

Demand

A requirement for a product or service; alternately referred to as independent or dependent demand.

Dependent Demand

Dependent demand is the demand for a product or service caused by the demand for other products or services.

Depletion

The use or consumption of a resource faster than it is replenished.

Depreciation Method–Declining Balance (Accounting)

An accounting method under which an annual depreciation provision is computed at a fixed percentage and applied to the unrecovered cost at the beginning of the period. The unrecovered cost is reduced each year by the prior year's depreciation. It is an accounting method that assumes that depreciation is dependent on the passage of time and allocates an equal amount of depreciation.

Depreciation Method–Straight Line (Accounting)

An accounting method by which a charge is calculated by dividing the cost, less salvage, by the number of fiscal periods of useful life.

Depreciation Method–Sum of the Years Digits (Accounting)

An accounting method that applies a changing rate to the cost, less salvage, wherein the rate is a fraction, the denominator remains fixed and is equal to the sum of all the digits of the years of useful life, and the numerator decreases each year and is equal to the years of the remaining life at the beginning of the year.

Depreciation Recapture

When depreciated property is sold, the recapture is the difference between the asset's adjusted basis and the selling price in excess of the amount of depreciation is the amount of depreciation recapture.

Direct Capitalization Approach

This approach measures value by dividing a projected income stream, in constant dollars, by a capitalization rate.

Direct Costing

A method that assigns only variable manufacturing costs (direct materials, direct labor, and variable manufacturing overhead) to products; more appropriately termed variable costing.

Direct Finance Lease – Leasing

A non-leveraged lease by a lessor (not a manufacturer or dealer) in which the lease meets any of the criteria definitions of a capital lease, plus two additional criteria as follows:

1. Collectability of minimum lease payments must be reasonably predicable; and
2. No uncertainties surround the amount of reimbursable costs to be incurred by the lessor under the lease.

Direct Labor

The gross wages of personnel who work directly on the goods being produced.

Direct Materials

All materials that form an integral part of a finished product that can be readily traced to the finished product.

Direct Overhead

Those costs directly related to manufacturing activity.

Direct (Variable) Costing (Inventory)

This method includes only variable manufacturing costs in the cost of ending finished goods inventory. This method is not acceptable for financial reporting purposes.

Direct Dollar Measurement

A method to estimate deterioration or obsolescence by considering the amount of money required to economically cure the deficiency.

Direct Lease (Financing)

Under Federal Accounting Standards (FAS) 13, a nonleveraged lease by a lessor (not a manufacturer or dealer) in which the lease meets any of the criteria definitions of a capital lease plus two additional criteria as follows: A) Collection of minimum lease payments must be reasonably predictable; and B) No uncertainties surround the amount of non-reimbursable costs to be incurred by the lessor in a direct financing lease. Also known as a direct financing lease.

Direct Materials

Raw materials that become an integral part of the finished product and are conveniently and economically traceable to specific units of productive output.

Direct Sales Comparison

When exact, or like, sales or offerings are found in the marketplace that sold under market or liquidation sale conditions.

Discount Rate

The rate of return used in discounting the future benefits generated by an asset or group of assets to determine present value; the return required to cause an investor to invest in the type of asset in question. When used to discount future benefits, the required rate of return is called the discount rate.

Discounted Cash Flow (DCF)

The application of a factor, based on the cost of the firm's capital or prevailing interest rates (with a possible adjustment for risk), to the cash inflows and outflows from a project or investment. Present value of future cash estimated to be generated. Also called net present value analysis. A technique for determining what a business is worth today in light of its cash yields in the future.

Discounted Cash Flow Method

See Discounted Cash Flow.

Discounting

The process used to determine present value.

Dollar-Value Method

Used in accounting as a method of pricing last in, first out (LIFO) inventories in which goods and products have to be grouped into one or more pools (classes of items), depending on the kinds of goods or products in the inventories. Also a variation of conventional LIFO in which layers of inventory are priced in dollars adjusted by price indices, instead of layers of inventory priced at unit prices.

Due Diligence

Requirement found in ethical codes that the person governed by the ethical rules exercise professional care in conducting his or her activities.

EBITDA

Earnings before interest, taxes, depreciation, and amortization.

Economic Benefits

Inflows such as revenues, net income, net cash flows, etc.

Economic Useful Life

The estimated period of time that a new property may be profitably used for the purpose for which it was intended. Stated another way, economic life is the estimated number of years that a new property can be used before it would pay the owner to replace it with the most economical replacement property that could perform an equivalent service. Functional or economic obsolescence factors may limit a property's economic life. An asset's economic life will often be less than its normal useful life.

Eminent Domain

The power of a public body to acquire private property for public purposes. Usually includes some payment of just compensation to the property owner.

Ending Inventory

Merchandise on hand for sale to customers at the end of the accounting period.

Equity

The net worth of a company. The owner's interest in property after deduction of all liabilities. Also called owner's equity or capital.

Equity Net Cash Flows

The cash flows available to pay to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and increasing or decreasing debt financing.

Equivalent Distillation Capacity (EDC)

The summation of the size of each oil refinery process unit multiplied by its complexity.

Equity Risk Premium

An amount added to a risk-free rate to reflect the additional risk of equity over the risk free rate.

Escheat

The reversion of property to a government entity in the absence of legal claimants or heirs.

Estates

Ownership rights and interests in property.

Estimate

An opinion of value.

Estimated Remaining Useful Life

The period over which an item or group of items is estimated to remain usable.

Estimated Residual Value of Leased Property

The estimated value of the property at the end of the lease term and as defined in the lease.

Evaluation

A study of the nature, quality, or utility of a property, or interest in or aspect of the property, without reference to a value estimate.

Excess Capacity

The capital machinery equipment that provides for greater production than demanded. In some instances, this could be the extra capacity is available on a standby basis during peak usage periods or when other machinery is down for repair.

Excess Capital Cost

A type of functional obsolescence that typically results from changes in production or construction methods, equipment use, etc. (May be reflected by the difference between reproduction and replacement cost new excluding any consideration for betterment.)

Excess Liability Insurance

A policy that covers losses that exceed those covered under another policy. Also known as an umbrella policy.

Exclusion (Insurance)

A provision in an insurance contract describing property or types of property that are excluded from coverage.

Expense Accounts

Accounts used to keep track of expenses.

Extended Cost

Quantity of items multiplied by unit cost.

Face Lifting

A renovation that restyles or modernizes.

Fair Market Purchase Option – Leasing

An option to purchase leased property at the end of a lease at its then fair market value.

Fair Market Rental Value – Leasing

The expected rental for equivalent property under similar terms and conditions.

Fair Market Sales Value – Leasing

The expected selling price in an arm's length transaction between a willing buyer and a willing seller for equivalent property under similar terms and conditions.

Fair Rental – Leasing

The expected rental for equivalent property under similar terms and conditions.

Fair Value (FASB #157)

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. (This statement also explains that a fair value measurement of an asset assumes its highest and best use by market participants. Such use would maximize the value of the asset or group of assets within which the asset would be used, regardless of the intended use of the asset by the reporting entity.)

Fair Value (SFAS #141)

The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than a forced or liquidation sale. 22

Fairness Opinion (FASB #157)

An opinion as to whether or not the consideration in a transaction is fair from a financial point of view. 2

FASB

Financial Accounting Standards Board. An organization whose mission is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information.

FAS 13

Statement of Financial Accounting Standards 13, Accounting for Leases; FASB, Stamford, Connecticut, November 1976 (This sets formal financial accounting standards on accounting for leases.)

Feasibility Analysis

A study of the cost-benefit relationship of an economic endeavor (USPAP page U-3).

Fee Simple Estate

Absolute ownership unencumbered by any other interest or estate; subject only to the limitations of eminent domain, escheat, police power, and taxation.

Finance Lease

A type of equipment lease originally authorized by TEFRA (Tax Equity and Fiscal Responsibility Act), commencing January 1, 1984, but postponed effective March 7, 1984, until January 1, 1988, by the Deficit Reduction Act of 1984. A finance lease is similar to a true lease except that a finance lease may

contain a purchase option equal to 10 percent or more of the original cost of the equipment and/or the leased equipment may be limited use property. Finance leases are limited to new property.

Financial Accounting Standard 13 (FAS 13)

Statement of Financial Accounting Standards Number 13, Accounting for Leases; Financial Accounting Standards Board, Stamford, Connecticut, November 1976. Sets formal financial accounting standards on accounting for leases.

Financial Accounting Standards

Official promulgations, known as statements of financial accounting standards, by the financial accounting standards board (FASB) which are part of generally accepted accounting principles (GAAP25) in the United States.

Financial Accounting Standards Board (FASB)

Independent, private, non-governmental authority for the establishment of accounting principles in the United States. Also see: FASB 27

Financial Statements

Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate a financial position.

Financing Agreement

An agreement among the owner trustee, the lenders, the equity participants, and the lessee that spells out the obligations of the parties under a leveraged lease. Also called a Participation Agreement

Financing Agreement – Leasing

An agreement between the owner trustee the lenders the equity participants, the manufacturer and the lessee which spells out the obligations of the parties under a leveraged lease. Also called a participation agreement.

Finished Goods (Inventory)

The inventory of completed production that is owned by a firm as packaged and ready for delivery; items that have completed the production process and are ready for sale.

Finished Goods and Merchandise Inventories

Estimated selling prices less the sum of the costs of disposal and a normal profit.

FIRREA

Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

First-in, First-out Method (FIFO)

An accounting method for inventory—it assumes that inventory costs will be incurred in chronological order of purchase. [This means that the cost of the first goods acquired will be the first cost charged out. (Cost of goods will be lower and the closing inventory will be higher in times of inflation when prices are rising. The reverse is true in times of falling prices.)] Commonly known as FIFO.

Fixed Assets

Include real estate, physical plant, leasehold improvements, equipment (from office equipment to heavy operating machinery), vehicles, fixtures, and other assets that can reasonably be assumed to have a life expectancy of several years. Fixed assets also include intangibles like the value of trademarks, copyrights, and a difficult category known as “good will.”

Fixed Costs

Costs that do not vary with production or sales.

Floating Rental Rate – Leasing

Rental which is subject to upward or downward adjustments during the lease term. Floating rents sometimes are adjusted in proportion to prime interest rate or commercial paper rate changes during the term of the lease.

Floor (Inventory)

In lower of cost or market computations, market is limited to net realizable value less a normal profit, called the floor. Market (replacement cost) cannot be below the floor.²⁸ Inventory cannot be valued lower than the “floor” which is the net realizable value of the inventory less an allowance for a normal profit margin

Floor Plan (Inventory)

Common method of financing used by merchants, whereby through a credit agreement with a lending institution, the lending institution pays the supplier, holds title to the goods, and collects a small down payment from the merchant. [The balance of the cost (released price) is not paid until the goods have been sold.]

FOB (Free on Board)

Referencing purchased goods placed on board the means of transportation at a specified geographic point free of any loading and transportation charges to that point.

FOB Destination

Freight term indicating that the seller incurs transportation charges.

FOB Shipping Point

A freight term indicating that the purchaser incurs transportation charges.

Full Absorption (Full Costing) (Inventory)

In accordance with GAAP, this method includes all manufacturing costs (fixed and variable) in the cost of finished goods inventory.²⁹

Full Payout Lease

For FAS 13, a lease that qualifies as a direct financing lease or sales-type lease. (The definition of a full payout lease depends on the context in which it is used. Generally, the term full payout lease refers to a lease in which the cash flows from firm rents and an estimated conservative residual value will return to the lessor an acceptable return on investment and the cost of the leased equipment after payment of the cost of financing and overhead.)

Full-Service Lease

A lease that obligates the lessor to provide maintenance and repair and to insure the leased equipment (The lessor also pays the property taxes. Full-service leases are nearly always true leases in which the lessor owns the equipment at the end of the lease.)

Future Value (FV)

The amount that an investment will be worth at a future date.

Future Value of an Annuity

The sum of all of the future payment values in an annuity.

GAAP

The Generally Accepted Accounting Principles that are the common set of accounting principles, standards and procedures. ³⁰

GAAS

See generally accepted auditing standards. Also see: Generally Accepted Auditing Standards.

GAO

The independent accounting and auditing agency of the United States government that reviews federal financial transactions and reports directly to Congress.

GASB

The group that has authority to establish standards of financial reporting for all units of state and local government. Governmental Accounting Standards Board

General Ledger

The group of all of the balance sheet, income and expense accounts used to keep business accounting records.

Generally Accepted Accounting Principles (GAAP)

The conventions, rules, and procedures used to define accepted accounting practice at a particular time.³² As related to inventory, a method of keeping inventory controls for an ongoing enterprise.

Generally Accepted Auditing Standards (GAAS)

The standards set by the American Institute of Certified Public Accounts (AICPA) which concern the auditor's professional qualities and judgment in the performance of an audit and in the audit report.

Going Concern

An ongoing business enterprise.

Going Concern Value

The value of a business enterprise that is expected to continue to operate.

Goods in Transit (Inventory)

Goods in the hands of a common carrier or other similar carrier are deemed to be in transit.

Goodwill

That intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified. Also the amount paid in the acquisition of an entity over the fair value of its identifiable tangible and intangible assets less liabilities assumed.

Grantee

The one whom property is transferred.

Grantor

The one who transfers property or the one who creates a trust.

Grantor Trust – Leasing

A trust used as the owner trust in a leveraged lease transaction, usually with only one equity participant. The Internal Revenue Code refers to such a trust as a grantor trust (See Section 671). With more than one equity participant the grantor trust is usually treated as a partnership.

Gross Book

The amount shown in the assets section of a financial balance sheet as the capitalized cost of property.

Gross Income

The total revenue received before any deductions.

Gross Margin

Revenues less raw material expense; a useful level of earnings to test for economic obsolescence.

Gross Profit (Inventory)

The result of subtracting cost of sales from net sales. Also referred to as gross margin.

Gross profit

The amount of net sales minus the cost of sales.

Gross Profit Method (Inventory)

A method used to estimate the amount of ending inventory based on the cost of goods available for sale, sales, and the gross profit percentage.

Hard Costs

The direct costs of acquiring a business (such as the purchase price), constructing a building (brick and mortar), etc., or purchasing and installing an item of personal property such as machinery and equipment as opposed to legal, accounting, consulting, financing, costs, which are called soft costs.

Hardware

As it pertains to computer equipment, hardware is a term often synonymous with Equipment. Used lately as all the equipment needed for the operation of a computer system.

High-Low Debt – Leasing

Leveraged debt with higher payments earlier in the lease than later in the lease.

High-Low Rent – Leasing

A lease in which rents are higher earlier in the term than later in the term.

Hire-Purchase Agreement – Leasing

A conditional sale lease.

Historical Cost

The original total purchase price (including all freight and installation) of a property when it was first placed into service by its first owner.

HMTA

Hazardous Material Transportation Act

Holding Company

An entity that derives its returns from investments rather than from the sale of products or services.

Hurdle Rate

See margin

Hypothetical Condition

That which is contrary to what exists but is supposed for the purpose of analysis (USPAP page U-3).

Ibid

An abbreviation of the Latin term *ibidem*, meaning “in the same place; in the same book; on the same page.” It is also abbreviated as *id*.

Impairment

A situation where the carrying value of the assets (either tangible or intangible) exceeds the fair value of those same assets.

Implied Warranty

A guarantee that is assumed despite the fact that it is not written down or explicitly spoken.

Improvement

A change or addition that improves; the act of improving something; a condition superior to an earlier condition. An expenditure directed to a particular asset to improve its performance or useful life.

In Continued Use

A value assigned to an asset assuming that the asset is sold as part of an on-going operation and assumes that the asset is sold and consequently operated with the other assets in its group. (Also see In Use.)

In Use

A value assigned to an asset assuming that the asset is sold as part of an on-going operation and assumes that the asset is sold and consequently operated with the other assets in its group. (Also see In Continued Use.)

Income

Amount of revenue received. Also see: Net Income.

Income (Income-Based) Approach

A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount. 35

Income Statement

A financial statement that shows the amount of income, expenses and net profit (or loss) by a business over an accounting period. Also known as “profit and loss statement”.

Indemnitee

A party who is indemnified by another against loss or damage from specific liabilities.

Indemnity Agreement – Leasing

When used in the context of leveraged lease, an agreement whereby the owner participants and the lessee indemnify the trustees from liability as a result of ownership of the leased equipment.

Indemnity Clause – Leasing

This refers to indemnity provisions in a lease. There are three standard indemnity sections in leveraged lease financing: the general indemnity, the general tax indemnity, and the special tax indemnity. In leveraged leases, the tax indemnity clauses can be quite lengthy and are sometimes contained in a special

supplement to the lease agreement. Although lease documentation contains various indemnities, the indemnity clause usually refers to the tax indemnity clause whereby the lessee indemnifies the lessor against the loss of tax benefits.

Indemnity Trustee – Leasing

Some leveraged leases have a separate indenture trustee in addition to an owner trustee. The indenture trustee holds the security interest in the leased equipment for the benefit of the lenders. In the event of default, the indenture trustee exercises the rights of a mortgagee. The indenture trustee also is responsible for receiving rent payments from the lessee and using such funds to pay the amounts due the lenders with the balance being paid to the owner trustee. The indenture trustee sometimes verifies that correct filings are made to protect the security interest of the lenders, although the lessee usually is obligated to cause the delivery of annual opinions of counsel as to continued perfection. The bond register is maintained by the indenture trustee, who also acts as transfer agent.

Indenture of Trust – Leasing

An agreement between the owner trustee and the indenture trustee whereby the owner trustee mortgages the equipment and assigns the lease and rental payments under the lease as security for amounts due to the lenders (Occasionally, particularly in maritime financing, the owner trustee will mortgage the leased property to the indenture trustee under a maritime mortgage instrument, separate from but subject to the indenture of trust. This is the same as a security agreement or mortgage.)

Independent Demand

Independent demand is the demand for a product. However, its demand cannot be derived directly from that of another product.

Indexing

A method used to estimate current cost in which an index factor is applied to the historical cost of an item reflecting the movement of cost over time (See Trending.)

Indirect Comparison Methodology

When an appraiser uses a sale of a similar, but not the same, manufacturer or model, to estimate the value of the subject.

Indirect Labor

The wages of factory employees who do not work directly on the product.

Indirect Materials

Minor material items used in manufacturing a product.

Inflation

An economic condition the signs of which include rising prices and reduced purchasing power.

Initial Direct Costs – Leasing

Costs incurred by a lessor directly associated with negotiating and completing a transaction such as commissions, legal fees, costs of credit checks, documentation costs, allocable sales expenses (including salaries other than commissions), and similar expenses; but specifically excluding supervisory, administrative, or other indirect or overhead expenses.

Initial Term – Leasing

The initial period of time for which equipment is leased exclusive of renewals.

Insurable Value

The value of that portion of a property covered by insurance in accordance with the terms of the insurance policy or other agreements.

Insurable Value Depreciated (IVD)

The insurance replacement or reproduction cost new less accrued depreciation considered for insurance purposes, as defined in the insurance policy or other agreements, as of a specific date.

Insurance Replacement Cost New (IRCN)

The replacement or reproduction cost new, as defined in the insurance policy, less the cost new of the items specifically excluded in the policy, as of a specific date.

Insurance Value

The value of that portion of a property covered by insurance in accordance with the terms of the insurance policy or other agreement,

Insurance Value Depreciated

The insurance replacement or reproduction cost less accrued depreciation considered for insurance purposes, and as defined in the insurance policy or other agreement, as of a specific date.

Insured Value – Leasing

A schedule included in a lease which states the agreed value of equipment at various times during the term of the lease and establishes the liability of the lessee to the lessor in the event the leased equipment is lost or rendered unusable during the lease term due to a casualty.

Intangible Assets

Assets that do not take on a physical form.

Intangible Costs

Costs incurred to create an intangible asset.

Intangible Personal Property

That portion of an item in which rights cannot be transferred in exchange at the same level of trade.

Interest (Financial)

The cost associated with the use of money for a specific period of time.

Interest Rate Implicit in a Lease (as used in FAS 13) – Leasing

The discount rate which, when applied to minimum lease payments (excluding executor costs paid by the lessor) and unguaranteed residual value, causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease minus any investment tax credit retained by the lessor and expected to be realized by him.

Intermediates

Partially finished components requiring further processing to maximize their value.

Internal Rate of Return (IRR)

The annualized rate of return on capital that is generated or can be generated by an investment over a period of ownership. It is equivalent to the discount rate that makes the net present value of an investment equal to zero.

Internal Revenue Service (IRS)

A federal agency that interprets and enforces the U.S. tax laws governing the assessment and collection of revenue for operating the government.

Intrinsic Value

The value that an investor considers, on the basis of an evaluation or available facts, to be the “true” or “real” value that will become the market value when other investors reach the same conclusion.

Inventory

(verb) A term used to identify the compilation of fixed asset data or information created during an appraisal.

(noun) Also defined as those items of tangible property that are held for sale in the normal course of business, are in the process of being produced for such purpose, or are to be used in the production of such items. [As defined by UCC 9.109, “Inventory consists of goods that are held by a person or business or entity for sale or lease, or to be furnished under contract(s) of service—or have been so furnished—whether raw materials, work in process, or materials used and consumed in a business.”]

Inventory Cost

Cost recorded upon purchase of inventory; includes invoice price less cash discounts plus freight and transportation and applicable insurance, taxes, and tariffs.

Inventory Layer (Inventory)

Under the LIFO method, an increase in inventory quantity during a period³⁷.

Inventory Mix

The makeup of inventory considering its quantities, condition, variations in market acceptance, specialization, adaptability, technology, and in some cases, overall component count.

Inventory Supplies

Items of an expendable nature used in the operation of a business or profession but not offered for sale are called supplies. Also, see supplies.

Inventory Turnover

The number of times that the investment in merchandise or stocks on hand is replaced during a stated period, usually 12 months.

Invested Capital

The sum of equity and debt in a business enterprise.

Investment Risk

The uncertainty pertaining to future benefits to be derived from an investment.

Investment Tax Credit (ITC)

A credit against taxes due equal to 10% for equipment with a recovery period of 5 years or more, and 6% for equipment with a recovery period of 3 years. The amounts are reduced 2% on election by the taxpayer in lieu of the otherwise required tax basis reduction. Note: Repealed in 1986.

Invoice

A source document used to record sales of merchandise.

Invoice Price

List price less applicable trade discounts.

Iowa Curves

A series of 22 statistical survivor curves developed by Iowa State University that predict the percentage of assets within a given group that will retire at various points during the life of the group. The curves are based on empirical data collected (mainly in the 1930s) by Iowa State University for the purpose of statistically predicting future service expectancy for various tangible properties. (Similar to human mortality curves used in the insurance industry.)

IRC

Internal Revenue Code

IRR

Internal rate of return

IRS

Internal Revenue Service

ITC

See Investment Tax Credit.

Item-by-Item Method

A method of applying the lower-of-cost-or-market rule to inventory pricing.

Item Specific Economic Obsolescence

Obsolescence caused by external forces that may only be impacting a specific particular item or group of items.

Job Shop

A type of manufacturing process in which small batches of a variety of custom products are made. In the job shop process flow, most of the products produced require a unique set-up and sequencing of process steps.

Joint Venture

A undertaking between two or more parties.

Jurisdictional Exception

An assignment condition established by applicable law or regulation, which precludes an appraiser from complying with a part of USPAP (USPAP page U-3).

Just-In-Time

An inventory management policy whereby materials and components are delivered just in time for the manufacturing process.

Landed Cost

Original cost plus freight.

Last-in, First-out Method (LIFO)

An inventory costing method under which the costs of the last items purchased are assigned to the first items sold and the cost of the inventory is composed of the cost of items from the oldest purchase. Also defined as a cost flow assumption; the last goods purchased are assumed to be the first goods sold.³⁸

Last Year's Sales/Usage

Total units sold or used last year for each product/style code.

Lease

A conveyance of the right to use property by the owner (lessor) to another (lessee) for a specified period in return for a monetary or other consideration usually in the form of rent.

Lease Intended as Security

A lease in which the lessee is considered owner for both legal and federal income tax purposes. A conditional sale or installment purchase for income tax purposes.

Lease-Purchase

An agreement to buy a particular piece of property within a certain time-frame, usually at a price determined beforehand.

Lease Rate

The equivalent simple annual interest rate implicit in minimum lease rentals (This is not the same as interest rate implicit in a lease.)

Lease Schedule

A listing of items subject to a lease that describes the items in detail. The schedule may reflect the lease term, the commencement date, and the location of the equipment and be incorporated into the basic lease agreement by reference.

Lease-Specific Factors

Factors contractual in nature and inherent in the lease itself.

Lease Term

The fixed, non-cancelable term of a lease. Includes, for accounting purposes, all periods covered by fixed-rate renewal options for which economic reasons appear likely to be exercised at the inception of the lease. Includes, for tax purposes, all periods covered by fixed-rate renewal options.

Leasehold

The property interest a lessee has in the leased property without transfer of ownership.

Lessee

The person or entity that has the right to use property under the terms of a lease. 39

Lessor

A party who owns property and leases the asset to a lessee and permits the lessee to use the asset in accordance with the lease contract. (Legal title under the Uniform Commercial Code may be with the lessee in finance leases and nontax-oriented leases.)

Lessor – Leasing

The owner of the equipment which is being leased to a lessee or user.

Letter of Intent

A document in which one or more parties signify an intention to do or to refrain from doing one or several things. Letters of intent are generally non-binding and unenforceable.

Level of Trade

There may be different levels at which goods are traded or transferred. Level of trade entails the various levels at which goods are bought and sold. Personal property has several measurable marketplaces. Therefore, the appraiser should define and analyze the appropriate market consistent with the type and definition of value.

Leverage

An amount borrowed (A lease is sometimes referred to as 100% leverage for the lessee. In a leveraged lease, the debt portion of the funds used to purchase the asset represents leverage of the equity holder.) 1. Financial leverage is the act of increasing the return on an investment by borrowing some of the funds at an interest rate less than your return on the project. 2. Operating leverage has the same objective, but you increase your return by increasing cheaper fixed costs. Leverage can be positive or negative. If the return on an investment is greater than the cost of borrowing, leverage is positive. If the return is less, leverage is negative.

Leveraged Lease

A true lease or a finance lease that meets the definition criteria for a direct financing lease or a capital lease, plus all of the following characteristics: A) At least three parties are involved: a lessee, a lessor, and a long-term lender; B) The financing provided by the lender is substantial to the transaction and without recourse to the lessor; and C) The lessor's net investment typically declines during the early years of the lease and rises during the later years of the lease.

Leveraged Buy Out

Acquisition of a controlling interest in a company using significant amounts of financing.

Liabilities

Obligations to other entities as a result of past transactions. In business, liabilities are balance sheet accounts, accounts payable, payroll taxes payable and loans payable.

Lien

A type of encumbrance on a property for a debt or for an obligation.⁴⁰

LIFO (last in, first out)

An accounting method for inventory – the most recently incurred costs are charged off first, leaving the earlier incurred cost in the ending inventory.

LIFO Conformity Rule (Inventory)

A statutory requirement in the U.S. that dictates if the LIFO method is used for income tax purposes, it must also be used for financial reporting purposes.⁴¹

LIFO Liquidation (Inventory)

Liquidation of the LIFO base or old inventory layers when inventory quantities decrease. This liquidation can distort income since old costs are being charged to cost of goods sold and matched against current revenues.

LIFO Reserve (Inventory)

The difference between LIFO values and replacement cost. (Current value = LIFO + LIFO reserves – Depreciation) Also, the difference, at a specified date, between inventory valued using LIFO and inventory valued using the method the company uses for internal management or reporting purposes.⁴³

LIFO Retail (Inventory)

An inventory costing method which combines the LIFO cost flow assumption and the retail inventory method

Limited Liability Company (LLC)

Form of doing business combining limited liability for all owners.

Limited Partnership

Partnership in which one or more partners, but not all, have limited liability to creditors of the partnership.

Limited Use Property

Property that is uniquely valuable to the lessee and not valuable to anyone else except as scrap. A lease of special purpose property will not qualify as a true lease because the lessee controls the residual value.

Line Item

A specific account that categorizes or groups common expenditures.

Liquid Asset

An asset that can be readily spent or transferred to cash.

Liquidation – Financial

Winding up an activity by distributing its assets to the appropriate parties and settling its debts or turning fixed assets into liquid assets, namely into cash.

Liquidation Value

The amount that would be realized if the assets are sold either under “orderly” or “forced” conditions. (See Orderly Liquidation Value, Forced Liquidation Value and Liquidation Value in Place.

Liquidation Value In Place (LVIP)

An opinion of the gross amount, expressed in terms of money that typically could be realized from a properly advertised transaction, with the seller being compelled to sell, as of a specific date, for a failed, non-operating facility, assuming that the entire facility is sold intact.

Liquidity

The ability to quickly convert an asset to cash.

List Price

The basic catalog price for merchandise.

Loan-to-Value Ratio

The percentage a lending institution will loan to the appraised value of a property.

Long-term Liabilities

Liabilities that are not required to be paid within one year.

Low-High Debt - Leasing

Leveraged debt with lower payments earlier in the lease than later in the lease.

Lower of Cost or Market

Generally accepted accounting principle that inventory should be valued at the lower of the cost to produce it, the cost to repurchase it, or its market value.

Lower of Cost or Market (Accounting)

The amount that indicates historical cost or market value, whichever is lower.

Lower of Cost or Market (Appraising)

A reflection of current replacement cost or market, whichever is lower. (This differs from accounting that reflects only on historical cost.)

Lower of Cost or Market (Inventory)

Inventories must be valued at lower of cost or market (replacement cost). Market cannot exceed the ceiling (net realizable value) or be less than the floor (net realizable value less a normal markup)

Lower-of-Cost-or-Market Rule

A method of inventory pricing under which the inventory is priced at cost or market, whichever is lower.

Lump Sum

A single price for a group of goods or services where there is no breakdown for the individual items.

LUST

An acronym for Leaking Underground Storage Tanks.

Majority Interest

An ownership position greater than fifty percent of the voting interest in an enterprise.

Malfesance

Misfeasance refers to an improper and unlawful carrying out of an act that, if correctly done, is in itself is lawful and proper, and results in harm to another. Malfesance is a related term, but is distinguished by an intention to cause harm by doing an act which should not be done. Misfeasance is careless or accidental in nature, while malfesance is deliberate and knowing. The terms malfesance and misfeasance are comprehensive terms and include any wrongful conduct that affects, interrupts, or interferes with the performance of official duty.

Manufacturer's Inventory

The inventory of goods to a manufacturer for the purpose of converting raw material to a finished good.

Manufacturing Costs

All costs necessary to make a product.

Margin

Sometimes referred to as hurdle rate; an expected profit on an item or group of items to the next level of trade. (See markdown.)

Mark-to-Market

A accounting procedure by which assets are recorded at their current market value which may be higher or lower than their original cost, historical cost or the depreciated amount that may be shown in accounting records.

Markdown (Inventory)

A monetary or percentage discount from the normal expected price. Also, a decrease below original retail price. A markdown cancellation is an increase (not above original retail price) in retail price after a markdown.

Market Analysis

The identification and study of market conditions for a specific type of property.

Market (Market-Based) Approach (Business)

A general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Market Multipliers

Market-derived multipliers that are applied to a level of earnings to result in an indication of value.

Market Approach

See Sales Comparison Approach.

Market Participants

Buyers and sellers who are independent of and are not related to the entity (or assets) being valued, knowledgeable and have a reasonable level of understanding about the facts regarding the entity (or assets) being valued, have the legal and financial means to buy or sell the entity (or assets) being valued and willing buyers or sellers which are motivated, but not otherwise forced or compelled to buy or sell.

Market Rent

The rent that a property would most probably command in the open market and indicated by the current rents paid and asked for comparable property as of a specific date.

Market Value

A type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal. Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client's intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories: 1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer); 2. the terms of sale (e.g., cash, cash equivalent, or other terms); and 3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale). Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value (USPAP pages U3–U4).

Market-Value Clause - Insurance

A clause in an insurance policy that provides for a settlement of a claim based on the market value.

Marketability

The ability to quickly convert property to cash at minimal cost.

Marketability Discount

An amount or percentage deducted from an equity interest to reflect the lack of Marketability.

Marketing Period

The time required to sell a property in the open market subject to specific sale conditions.

Marking Average (Inventory)

An inventory costing method used in conjunction with a perpetual inventory system. A weighted-average cost per unit is recomputed after every purchase. Cost of goods sold are recorded at the most recent moving average cost.

Markup (Inventory)

The price applied as a percentage above cost. Also an increase above original retail price. A markup cancellation is a decrease (not below original retail price) in retail price after a markup.

Mass Appraisal

The process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing (USPAP page U-4).

Master Lease

A lease line of credit that allows a lessee to add equipment to a lease under the same basic terms and conditions without negotiating a new lease contract.

Materials Price Variance

The difference between the actual and standard prices multiplied by the actual quantity of materials purchased and put into production.

Materials Quantity Variance

The difference between actual and standard quantities of materials used multiplied by the standard price.

Mean

The arithmetic mean (AM) equals the sum of the variables divided by the number of items in the group.

Measurement Period

The period of time after the acquisition date during which the acquirer is allowed to make adjustments to any provisional (or estimated) entries they made in their financial statements as of the acquisition date.

Mechanic's Lien

A claim issued in favor of mechanics, contractors, laborers or material suppliers against a building or other structure.

Median

The median equals the middle number of an array.

Merchandise

Goods that are purchased as finished products and held for resale.

Merchandising System

A system that processes the transactions and events related to a merchandising business.

Merchant plant

A plant that buys raw materials and sells products in the competitive market at market rates.

Merger

Business combination that occurs when one entity directly acquires the assets and liabilities of one or more entities and no new corporation or entity is created. Also see: Consolidation.

Minimum Investment - Leasing

For a leveraged lease to be a true lease, the lessor must have a minimum "at risk" investment of at least 20% in a lease when the lease begins, ends, and at all times during the lease term.

Minority Interest

Ownership position less than 50% of the voting interest in an enterprise.

MISF

See multiple investment sinking fund method.

Misfeasance

Misfeasance refers to an improper and unlawful carrying out of an act that, if correctly done is in itself lawful and proper, and results in harm to another. Malfeasance is a related term, but is distinguished by an intention to cause harm by doing an act which should not be done. Misfeasance is careless or accidental in nature, while malfeasance is deliberate and knowing. The terms malfeasance and misfeasance are comprehensive terms and include any wrongful conduct that affects, interrupts, or interferes with the performance of official duty.

Mode

The mode equals the number that appears most often in an array.

Modified Accelerated Cost Recovery Schedule (MACRS)

Accelerated depreciation schedule allowed by the federal government for income tax purposes.

MPRSA

An arrangement for the Marine Protection Resource and Sanitarities Act which applies to the disposal and incineration of hazardous waste on land and sea.

MSDS

An acronym for Material Safety Data Sheets - The MSDS is a written document with extensive information on chemical identification, hazards and positive measures. There must be an MSDS for each hazardous chemical in the workplace.

Multiple

The inverse of the capitalization rate.

Multiple Investment Sinking Fund Method - Leasing

A popular method of leveraged lease analysis that breaks down the net cash flows into non-overlapping investment and sinking fund phases.

Multiple Line Insurance

An insurance policy that combines both liability and property damage coverage and insures against a wide variety of possible losses.

NCP

An acronym for National Contingency Plan which outlines the criteria which must be applied in the investigation and evaluation of hazardous waste sites, and determination of proper clean-up response.

Negligence

The omission of something which a reasonable man, guided by those ordinary considerations which ordinarily regulate human affairs, would do, or the doing of something which a reasonable and prudent man would not do. Negligence is the failure to use such care as a reasonably prudent and careful person would use under similar circumstances; it is the doing of some act which a person of ordinary prudence would not have done under similar circumstances or failure to do what a person of ordinary prudence would have done under similar circumstances. The term refers only to that legal delinquency which results whenever a man fails to exhibit the care which he ought to exhibit, whether it be slight, ordinary, or great. It is characterized chiefly by inadvertence, thoughtlessness, inattention, and the like, while “wantonness” or “recklessness” is characterized by willfulness. The law of negligence is founded on reasonable conduct or reasonable care under all circumstances of particular care. Doctrine of negligence rests on duty of every person to exercise due care in his conduct toward others from which injury may result. 59

NESHAPS

The Federal Clean Air Act authorizes the EPA to conduct a toxic emissions program known as NESHAPS.

Net Assets

Net assets are the result of total assets minus total liabilities.

Net Book Value

With respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less

accumulated amortization or depreciation as it appears on the books of account of the business enterprise. The capitalized cost of an asset less the depreciation taken for financial reporting (see Book Value).

Net Income

The bottom line of the income statement (also called the profit and loss statement). Also called profit or net profit, it is equal to income minus expenses. Essentially it is revenue less expenses and taxes.

Net Lease

In a net lease, the rentals are payable net to the lessor. All costs such as taxes, insurance and maintenance in connection with the use of the equipment are to be paid by the lessee and are not a part of the rental. Most capital leases and direct financing leases are net leases.

Net Margin

Revenues less all fixed and variable expenses except for depreciation and interest expense; a useful level of earnings to test for economic obsolescence.

Net Present Value

The total present value of a time series of cash flows (the time value of money).

Net Operating Income (NOI)

The net income remaining after all operating expenses are deducted from gross income, but before mortgage debt service and book depreciation are deducted.

Net Realized Value

Selling price less reasonably estimable costs of completion and disposal.

Net Sales

Gross sales less any adjustments for returns, allowances, or discounts taken.

Net Tangible Asset Value

The value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities. 61

Net Worth

The remainder after total liabilities are deducted from total assets.

Nominal Dollars

Current dollars that reflect both real growth and inflation.

Noncash Expense

An expense on an income statement that does not reflect a cash outflow; depreciation expense.

Nonoperating Assets

Assets not necessary for ongoing operations of the business enterprise; usually held for investment purposes or as surplus and intended for subsequent disposal. They do not contribute to the earning capacity of the business entity.

NPEDS

An acronym for the National Pollutant Discharge Elimination System which governs permits issued under the Clean Water Act (CWA).

NPL

An acronym for the National Priority List-Priorities sites for clean-up. Each site receives a numerical score based on analysis of the degree of risk to human health and environment.

Observable Inputs

Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Off Balance Sheet Loan

A type of financing that is used as a true lease for financial accounting purposes and a conditional sales agreement or loan for tax purposes.

Off-Sites

Facilities required to support the primary process units such as electric power distribution, water supply, treatment and disposal, tankage, buildings, and fire protection.

On-Hand Supply

Quantity of goods on hand for a given period based on historical sale movement.

Online Auctions

Sales transactions that result from a competitive bidding process conducted over the Internet.

Open-End Lease

A conditional sale lease in which the lessee guarantees the lessor will realize a minimum value from the sale of the asset at the end of the lease. If the equipment is not sold for the agreed residual value, the lessee pays the difference to the lessor. If the equipment is sold for more than the agreed residual value, the lessor pays the excess to the lessee. The lease is called an "open-end" lease because the lessee does not know the extent of its liability to the lessor until the equipment is sold at the end of the lease. The lessee's liability is "open-ended." The term is commonly used in automobile leasing. Individual liability under open-end leases is limited by consumer protection laws.

Operating Assets

Assets employed in the normal conduct of business operations.

Operating Cycle

The period of time it takes a firm to buy merchandise inventory, sell the inventory, and collect the cash.

Operating Expenses

The total of fixed and variable expenses.

Operating Income

Operating income is a company's earnings from its core operations after it has deducted its cost of goods sold and its general operating expenses. Operating income does not include interest expenses or other financing costs. It also doesn't include income from outside activities of the company, such as income on investments.

Operating Lease

Under FAS 13, a lease that does not meet the criteria of a capital lease or direct financing lease. Generally used to describe a short-term lease whereby a user can acquire use of an asset for a fraction of the useful life of the asset. The term is used for a lease in which the lessor provides services, such as maintenance, insurance, and payment of personal property taxes. The term "operating lease" is derived from short-term leases of equipment, such as leases for trucks and construction equipment.

Operating Statement

A statement displaying financial operations over a specified period of time; most frequently an income statement.

Optimal Replenishment system

That amount considered as required for continuing operations in which continuing depletion would still allow order and replenishment as the last item is sold.

Orderly Liquidation Value (OLV)

An opinion of the gross amount, expressed in terms of money, that typically could be realized from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.

Orderly Transaction and Price

Assumes exposure to the market for a period of time which is "usual and customary" for similar assets (or liabilities) and which is not a forced liquidation or distressed sale.

Original Cost (OC)

The initial capitalized cost of an asset in the hands of its present owner.

OSHA

An acronym for the Occupational Safety and Health Administration in the United States.

Overhaul

The act of improving by making repairs, renovations, revisions or adjustments by renewing and restoring.

Own Used Fuel

Energy derived from the raw materials utilized in the process plant but consumed on site.

Owners

Holders of equity interests of investor-owned entities and owners, members of, or participants in, mutual entities.

Partial Loss

An insurance term used to describe a loss of less than the entire value of a property or amount indicated in an insurance contract.

Participation Agreement - Leasing

An agreement between the owner trustee, the lenders, the equity participants, the manufacturer, and the lessee which spells out the obligations of the parties under the lever- aged lease. Also called financing agreement.

Partnership

Relationship between two or more persons whereby they agree to carry on a trade or business for profit and share the resulting profits.

Peer Review

The evaluation of an individual or firm's practice for compliance with professional standards.

Per Capita

A Latin term meaning "by head" meaning to be determined by the number of people.

Perceived Value

An individual's opinion of the value of an item or service to him or her. It may have little or nothing to do with the true market value or the market price of the item or service, and depends on the ability of the item or service to satisfy his or her needs or requirements.

Percent of Cost

Establishes the ratio of the sales price (either used or asking, private party or auction or “public” sale) to the current cost new of the asset at the time of the sale.

Per Curiam

A decision handed down by the court as a whole, without identifying any particular judge as the author. It is the opinion of the court as a single body.

Per Diem

A Latin term meaning “per day.”

Period Cost

A cost unrelated to the acquisition or manufacture of inventory.

Periodic Inventory Method

A method of accounting for inventory under which the cost of goods sold is determined by adding the net cost of purchases to beginning inventory and subtracting the ending inventory.

Periodic Inventory System (Inventory)

A system of accounting in which purchases and sales of inventory are not recorded in the inventory account.

Peripherals (Computer)

One of the three basic components of a computer system, the others being Central Processing Unit (CPU) and Random Access Memory (RAM). The term generally applies to any device other than the CPU and RAM that is attached to the computer system. Broken down into three basic categories: A) Input/Output (IO) devices such as printers, keyboards, and monitors; B) Mass storage devices such as disk drives, hard drives, and tape drives; C) Communication and Control devices such as modems and soundcards.

Perjury

Perjury is the crime of making a knowingly false statement which bears on the outcome of an official proceeding that is required to be testified to under oath. A statement is made under oath when 1) the statement was made on or pursuant to form bearing notice, authorized by law, to the effect that false statements made therein are punishable, or 2) the statement recites that it was made under oath, the declarant was aware of such recitation at the time he made the statement and intended that the statement should be represented as a sworn statement, and the statement was signed by an officer authorized to administer oaths.

Perpetual Inventory System

A system of accounting for inventory in which the inventory account is respectively increased and decreased for each purchase and sale of inventory made during the period.

Physical Inventory (Accounting)

The act of making a physical count of all merchandise on hand at the end of an accounting period.

Plant Specific Obsolescence

A condition within the particular plant that reduces the utility or profitability of the entire subject property.

Plenary

Characterized by being full and complete in every aspect.

POS (Point of Sale)

A method by which markdowns are only recognized at the register.

Present Value (PV)

The value of a future payment or series of future payments discounted to the current date or time period zero. The current equivalent value of cash available immediately for a future payment or a stream of payments to be received at various times in the future. The value, as of a specified date, of future economic benefits and/or proceeds from sale, calculated using an appropriate discount rate. Current value of a given future cash flow stream, discounted at a given rate. The value today of something that will be received in the future.

Present Value of an Annuity

The lump sum amount of money that, if invested at a specified rate for a specified period of time, would generate a certain payment stream over that period of time.

Price

The amount a particular purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding their transaction. Price may not necessarily be equal to value.

Price Earnings Ratio

The price/earnings ratio (P/E ratio) is one of a number of measures used to assess the value of a company. The “price” component of the ratio is the stock price of the company. The “earnings” portion is the net income (income after tax) reported by the company per share. These two numbers are divided to get a ratio.

Price-Relative Index

This index considers prices or values and may be unweighted or weighted. It is an average of a series of number, which are “shown as” percentages or indexes.

Principal (or 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).

Principle of Anticipation

This principle is based on the concept that the buyer of an asset is concerned not only with the past or present value of an asset but also the future use.

Product Group

Any group of categories utilized by a company such as a product line.

Product No/Style Code

Identifying codes used to differentiate between different stock keeping units (SKUs) in an inventory.

Profit and Loss Statement

A financial statement that is a list of income, expenses and net profit (or loss). Also called an income statement or "P&L."

Proof of Loss

An insurance term pertaining to a formal submission by an insured to an insurer containing sufficient data in support of a claim.

Proprietary Lease

A lease given by a corporation to another.

Proprietorship

A one owner, unincorporated business.

PRP

An acronym for Potentially Responsible Parties-Parties which are parties identified by EPA to be responsible for clean-up.

Public Utility Property

As defined in the Internal Revenue code, public utility property includes property used predominantly in the trade or business of the furnishing or sale of: A) electrical energy, water, or sewage disposal businesses; B) gas or steam through a local distribution system; C) telephone services or other communications services if furnished or sold by COMSAT; or D) transportation of gas or steam by pipeline; if the rates for the furnishing or sale of any of the above services have been established or approved by a state (or political subdivision), by an agency or instrumentality of the United States, or by a public service or public utility commission.

Puffery

An exaggeration or statement that no reasonable person would take as factual.

Purchase Discounts

A discount secured by the purchaser of merchandise for prompt payment of invoices.

Purchase Option

An option to purchase lease property at the end of the lease term. In order to protect the tax characteristics of a true lease, an option to purchase leased equipment from a lessor by a lessee that is granted at the beginning of a lease cannot be at a price less than its fair market value at the time the right is exercisable.

Purchase Order (PO)

A document that itemizes the details of merchandise that a purchaser desire to acquire.

Purchase Price Allocation

The allocation of the purchase price among the various asset categories (both tangible and intangible).

Purchase Option - Leasing

An option to purchase leased property at the end of the lease term in order to protect the tax characteristics of a true lease, an option to purchase property from a lessor by a lessee cannot be at a price less than its fair market value at the time the right is exercised.

Purchased/Manufactured Code

Codes used to distinguish manufactured versus purchased raw materials or component parts.

Purchasing System

A system that handles the record keeping for acquisitions of merchandise inventory and ensures that adequate stock levels are on hand to meet demand.

Purpose of the Appraisal

A statement clearly identifying the value(s) to be estimated that are consistent with the intended use of the appraisal (The purpose should be determined by an appraiser.)

Quantity on Hand

Total units for each stock keeping unit (SKU).

Quantity Survey Method

A procedure used to develop the total cost estimate for materials and labor by estimating the quantity and quality of all materials used and all categories of labor hours required; applying unit cost

figures, then adding estimates of owner's overhead and contractor's overhead and profit. Also known as detailed estimating.

Rate of Return

The rate of return on an investment expressed as a percentage of that investment.

The ratio developed when comparing income or yield to the original investment.

Ratio

The relation of one amount to another expressed as a fraction, integer, or percentage.

Raw Materials (Inventory)

The items to be processed into salable goods.

Raw Material Inventories

Current replacement cost.

Raw Materials Inventory

An inventory account made up of balances of raw material and supplies on hand at a particular time; also called stores or inventory control account.

Redundant Assets

See Non-Operating Assets.

Refurbish

To renew or restore to a new appearance and/or condition.

Related Parties - Leasing

In leasing transactions, a parent and its subsidiaries, an investor and its investees, provided the parent, owner, or investor has the ability to exercise significant influence over the financial and operating policies of the related party.

Remaining Inventory (Accounting)

Beginning inventory at some specific date + Purchases and additions - Sales (at cost) = Remaining inventory.

Renew

To make new or like new.

Renewal Option (Lease)

An option to renew the lease at the end of the initial lease term. In order to protect the tax characteristics of a True Lease, an option to renew a lease of equipment from a lessor by a lessee that is granted at the beginning of a lease must be at a price equal to its fair rental value at the time the right is exercised. Other renewal option periods are counted as part of the lease term for guideline purposes.

Renewal Options - Leasing

An option to renew the lease at the end of the initial lease term. Here, care must be used in granting a renewal option for a fair rental value. If this is not done properly, it may later be ruled that the lease is not a true lease and the tax advantages may be lost and tax indemnity clauses activated.

Renovation

The act of being restored to its former good condition.

Replacement Cost (Inventory)

The cost to reproduce an inventory item by purchase or manufacture. In lower of cost or market computations, the term market means replacement cost, subject to the ceiling and floor limitations.

Replacements

Costs incurred for making good or whole portions of a property that have deteriorated through use or have been destroyed by other causes.

Report

Any communication, written or oral, of an appraisal, appraisal review, or appraisal consulting service that is transmitted to the client upon completion of an assignment (USPAP page U-4).

Report Date

The date that the conclusions of value are transmitted to the client.

Required Rate of Return

The minimum rate of return that investors will accept before they will commit money to an investment considering a given level of risk.

Residual

A term that is sometimes used to indicate a value remaining after depreciation on any asset.

Residual Insurance - Leasing

An insurance policy guaranteeing a certain residual value at the end of the lease term.

Residual Value

In connection with a tangible asset, the term refers to the value of an asset after expiration of its normal useful life or the value remaining after part of the property's life has been consumed.

Residual Value (Accounting)

The estimated net scrap, salvage, or trade-in value of a tangible asset at the estimated date of disposal; also called salvage value or disposal value.

Residual Value (Appraisal)

Residual value in connection with a tangible asset is the same as salvage value.

Residual Value (Lease)

Lessor's expected value (usually defined internally by the lessor) of leased equipment at the conclusion of the lease term. The value of leased equipment at the conclusion of the lease term. To qualify the lease as a "True Lease" for tax purposes, the estimated residual value of the leased equipment at the end of the lease term must equal at least 20% of the original cost of the equipment, without regard to inflation. (However, the lessor is not required to book any residual for financial accounting purposes.) The value as of the end of the discrete projection period in a discounted future earnings model.

Restoration

The state of being restored or having been restored to its former good condition.

Retail

The sale of goods or commodities usually in small quantities directly to consumers.

Retail Method (Inventory)

An inventory estimation method that derives a cost to retail ratio and applies the ratio to the total retail value of inventory.

Retained Earnings

Profits of the business that have not been paid to the owners.

Retrofit

To substitute new or modernized parts or equipment for older ones.

Retrospective Appraisal

An appraisal with an effective date prior to the date on which the appraisal was performed.

Return on Investment (ROI)

Ratio measure of the profits achieved by a firm through its basic operations. The simplest version is the ratio of net income divided by owners equity.

Revenue Ruling

A written opinion of the Internal Revenue Service requested by parties to a lease transaction, which is applicable to assumed facts stated in the opinion. Published IRS rulings have general applicability.

Reversion

A lump-sum benefit that an investor receives or expects to receive at the termination of an investment.

Revolver Loan

A loan, typically on receivables or inventory, which moves up or down based on the balance of some measured value and or other guideline.

Risk

The possibility of loss of principal, lower future income purchasing power, interest rate variations during the term of the investment, and the failure to attain the periodic and the residual value forecast.

Risk Factor

The portion of a given return or rate of return from capital invested in an enterprise that is assumed to cover the risks associated with the particular investment; as distinguished from, and in excess of, the rate of return obtainable from funds invested where the safety of principal is virtually assured.

Risk-Free Rate

The rate of return available in the market on an investment free of default risk as of the valuation date.

Risk Premium

In risk or security analysis, the return over and above the risk-free rate.

Risk Rate

The annual rate of return on capital that is commensurate with the risk assumed by the investor: the rate of interest or yield necessary to attract capital.

S Corporation

A corporation which, under the internal revenue code, is generally not subject to federal income taxes.

Safe Harbor Rule

The concept in statutes and regulations whereby a person who meets listed requirements will be preserved from adverse legal action.

Safety Stock

That amount of inventory held on hand as backup for future orders that are anticipated but not yet committed.

Sale-Leaseback - Leasing

A transaction which involves the sale of the property by the owner and a lease of the property back to the seller who continues to use the property.

Sales Comparison Approach

This is one of the three recognized approaches used in appraisal analysis to lead to an indication of the most probable selling price of a property (also known as the market approach). This approach involves

the comparison of comparable recent sales (or offerings) of similar assets to the subject. If the comparable sales are not exactly like the subject, adjustments must be made to the price of the comparable sales (or offerings) to make the comparables reflect the subject property. The adjustments may be either up or down in order to estimate what the comparable would have sold for if it had the same characteristics as the subject.

Sale-Type Lease - Leasing

A lease by a lessor who is a manufacturer or dealer in which the lease meets the criteria definition of a capital lease or direct finance lease.

Salvage Value (Accounting)

Selling price assigned to retired fixed assets or merchandise unsalable through usual channels.

SARA

An acronym for the Superfund Amendments and Reauthorization Act.

Sarbanes-Oxley Act of 2002 (SOA or SOX)

The Act, H.R. 3763, signed into Law by President George W. Bush on July 30, 2002 to provide protection to the investment community regarding the financial audit and reporting of public companies.

Scatter Diagram

A graph of the relationship between two variables, one independent variable located on the horizontal (x) axis and the other dependent variable located on the vertical (y) axis.

Section 38 Property

Refers to property described in Section 38 of the Internal Revenue Code, and generally may be defined as tangible personal property used in a trade or business and located in the U.S., with certain limited exceptions in the case of aircraft, ships, and offshore rigs. Section 38 property is eligible for ITC (see Investment Tax Credit). Only a very limited amount of used property is eligible for ITC.

Short-Term Lease - Leasing

Generally refers to an operating lease.

Shrinkage

Usually a measurement or reserve held for damage and return privileges, theft, or other losses.

Simplified Dollar-Value Method

A small business election under the LIFO method that establishes multiple inventory pools in accordance with general categories of inventory items set forth in applicable government price indexes, and uses the change in those public published indexes to estimate the annual changes in price for inventory items in the pools.

Sinking Fund - Leasing

A reserve or a sinking fund established or set aside for the purpose of payment of taxes anticipated to become due at a later date (generally applicable only in leveraged leases)

Sinking Fund Rate

The rate of interest allocated to a sinking fund set aside for future payment of taxes (generally applicable only in leveraged leases)

Situs

Location or locale of subject.

SLV

An acronym for Stipulated Loss Value.

Soft Costs

See Indirect Costs.

Sole Proprietorship

See Proprietorship

Special Identification Method

Specific identification method (accounting): Used to identify the cost of each inventory item by matching the item with its cost of acquisition in addition to other allocable costs such as labor and transportation. (If this method is not used in accounting, one must elect FIFO or LIFO.)

Special Purpose Property

Property which is uniquely valuable to the owner or which may have been designed for a limited or special use but may not be of much value to anyone else in its present state.

Specific Identification (Inventory)

An inventory system where the seller identifies which specific items are sold and which remain in ending inventory.⁶⁷ This inventory method that requires a business to identify each unit of merchandise with the unit's cost and retail until the item of inventory is sold.

Spreadsheet

An electronic worksheet similar in format to an accounting ledger containing rows (horizontal) and columns (vertical). Each row is assigned a number while each column is assigned a letter. The intersection of a row and a column is known as a cell (i.e., A1).

Standard Costs (Inventory)

A unit price, which is predetermined at the time of purchase.

Standard of Value

The identification of the type of value being used in a specific engagement; e.g. fair market value, fair value, investment value, liquidation value, insurable value, et al.

Standard Sinking Fund Method

A method of leveraged lease analysis that assumes all negative cash flows after the initial investment will be paid out of a hypothetical sinking fund.

Stand-By Capacity

Machinery and equipment purchased in excess of needs so that extra capacity is available on a stand-by basis during peak usage periods or when other machinery is down for repair.

Start-Up Costs

Costs, excluding acquisition costs, incurred to bring a new unit into production or costs incurred to begin a business.

Stock and Trade

Goods held for sales that are displayed at a store or shop.

Stock Keeping Unit (SKU)

A unique numeric or alphanumeric assignment to an item for tracking control or measurement.

Stores

A typical differentiating term for supplies as referencing repair or replacement parts, but items not for day-to-day sale.

Straight-Line Depreciation Method (SL)

An accounting method that assumes that depreciation is dependent on the passage of time and that allocates an equal amount of depreciation to each period of time.

Sublease

A transaction in which leased property is released by the original lessee to a third party, and the lease agreement between the two original parties remains in effect.

Summary Page

The portion of an appraisal report that summarizes the results of the appraisal. (Sometimes referred to as an Executive Summary.)

Supplemental Standards

Requirements issued by government agencies, government sponsored enterprises or other entities that establish public policy which add to the purpose, intent, and content of the requirements in USPAP, that have a material effect on the development and reporting of assignment results.

Supplies

Stocks of goods intended to be consumed during the manufacturing or production process, but not part of the raw materials inventory.

Survivor Curve

A statistical curve showing the number of items within a given group that have remained in service at regular points in time (usually years).

Take Over

When one entity gains the majority of the shares of another entity, either via a friendly or hostile means.

Tax

A charge levied by a governmental unit on income, consumption or other basis. 68

Tax Lease

A lease in which the lessor claims tax benefits associated with equipment ownership. Same as a true lease.

TEFRA

An acronym for the Tax Equity and Fiscal Responsibility Act of 1982.

Term - Lease

The period of time during which a lease is in effect.

Terminal Value

Sometimes considered salvage or residual value.

Termination Date - Lease

The last day of a lease term.

Termination Value - Lease

Leases sometimes contain provisions permitting a lessee to terminate the lease during the lease term in the event the leased asset becomes obsolete and/or surplus to the lessee's needs. In a True Lease, the asset must be sold or transferred to some third party unconnected in any way with the lessee. The liability of the lessee in the event of such termination as set forth in a termination schedule that values the asset at various times during the lease term. This value is designed to protect the lessor from loss of investment. If the asset is sold at a price lower than the amount set forth in the schedule, the lessee pays the difference. In the event the resale is at a price higher than the amount set forth in the termination schedule, such excess amounts belong to the lessor. The termination schedule is not the same as the casualty value schedule, insured value schedule, or stipulated loss value schedule.

Throughput

The total quantity of a process plant's inputs.

Time Value of Money

The time value of money concept is that a dollar received today is worth more than a dollar to be received in the future because the dollar received today can be invested and earn interest or other benefits. (See Present Value.)

Title

The combination of all the elements that constitute proof of ownership.

Total Loss (Insurance)

The property's entire loss of value; entails payment of the face amount of an insurance contract, with an inflation guard provision on the amount, or payment of replacement cost, whichever is lower.

TRAC Lease

A lease with a "terminal rental adjustment clause." Used in automobile leases to describe an open-end lease. TRAC leases that otherwise meet True Lease guidelines are entitled to be treated as True Leases by lessors even though the residual risk is shifted to the lessee.

Trade Fixture

An article that is owned and attached to real property by an owner or a rented space or building by a tenant and used in conducting a business (also called a chattel fixture).

Trend

A general movement tied to a specific item or group of items in which the movement is up, down, or static.

Triple-Net Lease

Same as a net lease.

True Lease

A true lease is one in which the lessor is the legal owner holding title to the asset being leased; as such, the lessor has the rights and ownership for tax purposes. Therefore, a true lease is a transaction that qualifies as a lease under the Internal Revenue Code so that the lessee can claim rental payments as tax deductions and the lessor can claim tax benefits associated with equipment ownership such as ACRS/MACRS (see Accelerated Cost Recover Schedule/Modified Accelerated Cost Recovery Schedule) depreciation and ITC (see Investment Tax Credit).

True Lease - Leasing

A true lease typically has a Fair Market Value purchase or renewal option at the end of the base term. It is sometimes called a True or Tax Lease and is considered a traditional lease. In the transaction the lessor gives the lessee the right to use specified equipment for a stated period and under specified conditions, such as defined maintenance terms, in exchange for a fixed series of periodic payments. The lessor remains the owner of the equipment for tax purposes and the lessee treats the payments as an operating expense. At the end of the lease term, the customer has the option to return the equipment to the lessor, renew the lease at a Fair Market Value rental rate (negotiable), or purchase the leased equipment at the then Fair Market Value.

Turns

The number of times an SKU or group(s) of inventory is sold within a given period of time (Typically, this is expressed in one-year increments.)

UCC

The Uniform Commercial Code. It has been adopted by most states to govern commercial transactions.

Uniform Capitalization Rules

These are a set of rules intended to be a single comprehensive set of rules to govern the capitalization, or inclusion in inventory of direct and indirect cost of producing, acquiring and holding property. Under the rules, taxpayers are required to capitalize the direct costs and an allocable portion of the indirect costs attributable to real and tangible personal property produced or acquired for resale. The obvious effect of the uniform capitalization rules is that taxpayers may not take current deductions for these costs but instead must be recovered through depreciation or amortization.

Unit-in-Place Method

Used to develop unit costs for various property components, employing workable units such as the square-foot, linear-foot, or other appropriate basic unit of measurement, and applied to recorded unit quantities.

Unit of Measure (UM or UoM)

The indicator of quantity to cost as a basis of measurement.

Unobservable Inputs

Inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Unrecovered Cost

Difference between historical/original cost and the depreciation reserve; synonymous with net book value.

Unsalable Goods (Inventory)

Items in an inventory that cannot be sold at normal prices or in the usual way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes including second-hand goods taken in exchange.

USDOT

An acronym for the United States Department of Transportation which regulates transportation of hazardous materials at the federal level under the Hazardous Material Transportation Act.

Useful Life - Leasing

The period of time during which an asset will have economic value and be useable. Useful life of an asset is sometimes called the economic life of the asset. To qualify as a true lease, the leased property must have a remaining useful life of 20% of the original estimated useful life of the leased property at the end of the lease term, and at least a life of one year.

UST

An acronym for Underground Storage Tanks.

Utilization

The actual operating rate of a plant compared to its normal or designed operating rate.

Valuation Date

See Appraisal Date.

Valuation Method

One of the three specific approaches to determine value. See Cost Approach, Sales Comparison Approach and Income Approach.

Valuation Procedure

See Appraisal Procedure.

Value in Use - Financial

The present value of the future cash flows expected to be derived from an asset or a cash-generating unit. Also see In Use and In Continued Use.

Variable Costing

See direct costing.

Variable Operating Costs

Those elements that contribute to operating obsolescence.

Weighted-Average Cost (Inventory)

Weighting the units in the beginning inventory of a product and in each purchase of the product by the number of units in the beginning inventory and in each purchase, which determines a weighted average cost per unit of the product.

Weighted Average Cost of Capital (WACC)

The weighted average cost of capital (WACC) represents the after-tax return on the elements of the invested capital of the business, weighted by their relative percentage of the total invested capital. The WACC is made up of the cost of equity and the cost of debt.

Weighted Average Method (Inventory)

A method of accounting for inventory that computes a weighted-average cost for goods purchased or manufactured.

Weighting

The relative importance or impact made by items collectively or by quantity (All items are not of equal importance.)

Wholesale

The sale of goods in large quantities, as for resale by a retailer.

Word Processing

An electronic system that rapidly processes the text of letters, reports, etc.

Workfile

Documentation necessary to support an appraiser's analyses, opinions, and conclusions.

Work-in-Process (Inventory) (WIP)

The inventory of goods started but not completed.

Work in Process Inventories

Estimated selling price less the sum of the costs of completion, costs of disposal and a normal profit.

Working Capital

The amount by which current assets exceed current liabilities.

Year-to-Date Sales/Usage

Total units sold/used year to date for each product/style code.

Yield

The actual rate of return on an investment including any excess or deficit over the original capital investment at the end of the investment period. The interest rate earned by the lessor or equity participant in a lease, which is measured by the rate at which the excess cash flows (including tax benefits) permit recovery of investment [It is the rate at which the cash flows (including tax benefits) not needed for debt service or payment of taxes amortize the investment of the equity participants. Yield is expressed on a pretax basis but is computed on an after-tax basis. A lease yield is computed differently from ROE.



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