



Supporting South Africa 

A Brief Introduction to the Valuation of Plant and Machinery

Plant and machinery can be considered hunks of useless metal or valuable productive equipment, depending on the standpoint of the observer.

The design, manufacture and installation of plant and machinery is a costly endeavor and this machinery is generally commissioned to perform specific tasks. Once this machinery is no longer able to be used in its current status, it can essentially be considered a liability, regardless of the initial outlay.

The value of machinery and equipment is not quite as simple as it may initially seem.

Value and worth have different meanings and metrics depending on the observer.

To the prospective buyer, the plant and equipment may have many associated values and issues to consider such as:-

- current new replacement costs
- original purchase price
- current availability of similar equipment
- age, general condition and obsolescence
- comparative prices for similar equipment
- residual value
- potential future use
- cost relocation

Whilst the equipment may have reached the end of its current functional use in its present working place, there may be considerable interest and value to secondary and downstream users.

To the prospective seller, on the other extreme, may own a piece of cheap equipment which can be considered their most valuable asset due to its profitability and ability to produce a unique product.

On the other hand the most expensive piece of equipment might cost an owner more in terms of floor space rental than what the machine can return with its manufacturing ability and this be a liability. Market requirements and changes affect the value of plant and equipment as well as the machines location and place of operation as well as the machines condition.

As can be seen, the tasks of a determining the value of plant and machinery is made complex due to the number of influencing factors. A valuer's task is therefore to determine a value from a specific point of view which involves both subjective and objective components.

Basis of Valuation

Valuation Methodology

Valuation determines and provides an opinion as to the economic value of particular assets, taking into consideration the multitude of objective and subjective factors that influence this value.

- Estimated New Replacement Costs
- Market Value
 - o The Cost approach
 - o Market Data or Comparative Sales Approach
- Depreciated Replacement Cost (Straight Line)
- Indemnity Value

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