



Canadian Public  
Accountability Board

Conseil canadien sur  
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# University of Toronto Professional Accounting Centre

**2024 Conference: Forward-Looking Estimates & Valuation Problems in  
Accounting**

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# Agenda



**Use of Specialists**



**Challenges – inputs, process, standards**



**Bridging the Gaps**

# Involvement of Specialists

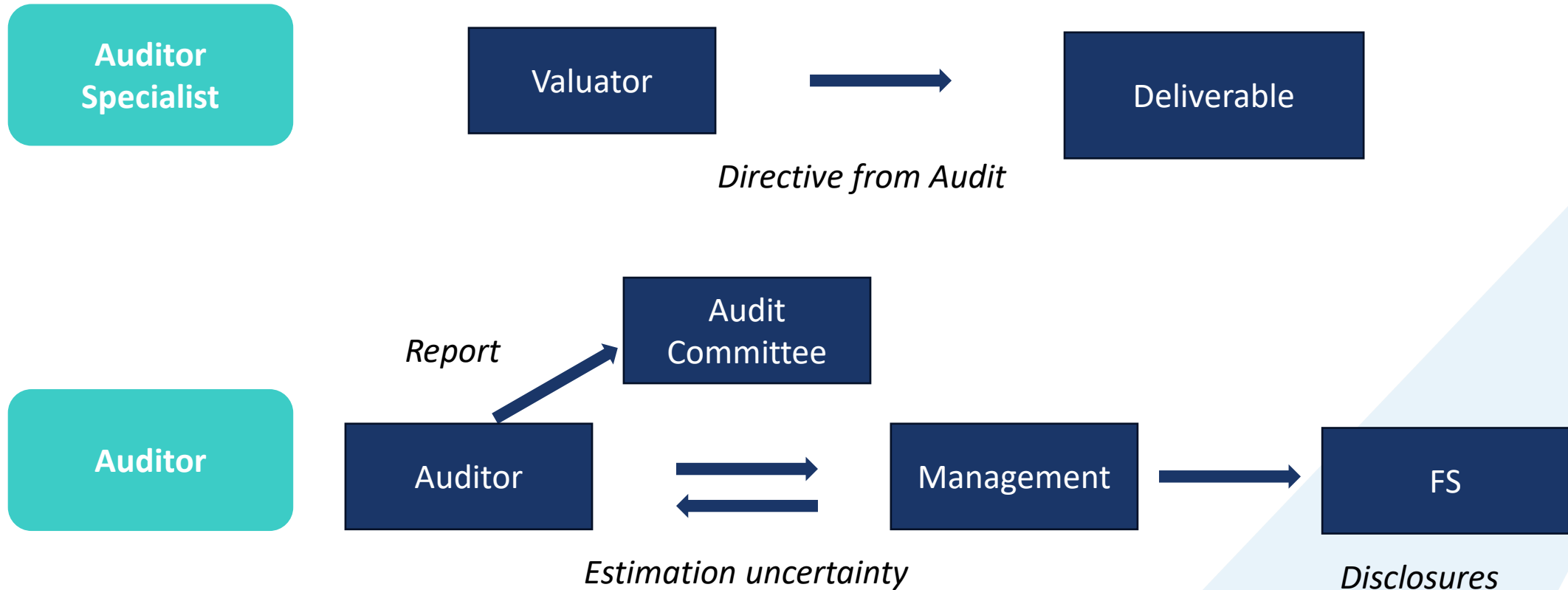
- Specialists play an important role in auditing complex accounting estimates
- Role of specialists varies based on the nature of the engagement

# Figuring out the Gaps – Underlying Inputs

For Illustrative Purposes Only - the below is not a complete / accurate valuation

	<i>Notes &amp; References</i>	12-months 31-Dec-20	Forecast for the years ended December 31,					Terminal
			2021	2022	2023	2024	2025	
<b>Revenue</b>		<b>20,000</b>	<b>26,000</b>	<b>28,600</b>	<b>34,320</b>	<b>44,616</b>	<b>53,539</b>	<b>56,216</b>
<i>YOY revenue growth (%)</i>			30.0%	10.0%	20.0%	30.0%	20.0%	5.0%
			...	...	...	...	...	...
<b>EBITDA (before grants)</b>		<b>(10,000)</b>	<b>2,600</b>	<b>3,432</b>	<b>5,148</b>	<b>6,692</b>	<b>8,031</b>	<b>8,432</b>
<i>EBITDA margin (%)</i>		-50.0%	10.0%	12.0%	15.0%	15.0%	15.0%	15.0%
Less: taxes	26.5%		(689)	(909)	(1,364)	(1,773)	(2,128)	(2,235)
Less: inc. working capital investment			(600)	(260)	(572)	(1,030)	(892)	(268)
Less: capital expenditures			(5,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
<i>Capital expenditures as % of revenue</i>			-19.2%	-3.5%	-2.9%	-2.2%	-1.9%	-1.8%
Add: tax shield on capital expenditures			708	142	142	142	142	142
Terminal cash flow								5,072
Terminal multiple								10.00
<b>Net cash flow</b>			(2,981)	1,404	2,353	3,031	4,152	50,717
Discount period			0.5	1.5	2.5	3.5	4.5	4.50
Discount factor	15.0%		0.9325	0.8109	0.7051	0.6131	0.5332	0.5332
<b>Present value</b>			<b>(2,780)</b>	<b>1,139</b>	<b>1,659</b>	<b>1,858</b>	<b>2,214</b>	<b>27,040</b>
<b>Business enterprise value before redundancies</b>		<b>31,130</b>						

# Figuring out the Gaps – Different Process



# Figuring out the Gaps – Different Standards



Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, because the discount rate is determined on a pre-tax basis, future cash flows are also estimated on a pre-tax basis.

IAS 36.51



**Comprehensive Valuation Report** - a Comprehensive Valuation Report contains a conclusion as to the value of shares, assets or an interest in a business that is based on a comprehensive review and analysis of the business, its industry and all other relevant factors, adequately corroborated and generally set out in a detailed Valuation Report.

CBV Practice Standard No. 110



In making the evaluation required by paragraph 33(c), the auditor shall take into account all relevant audit evidence obtained, whether corroborative or contradictory.<sup>21</sup> If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with CAS 705.<sup>22</sup>

CAS 540.34

# Bridging the Gap

**"The single biggest problem in communication is the illusion that it has taken place."**  
— George Bernard Shaw





# Resources



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