

AFTER DISASTER STRIKES, HOW CAN A FORENSIC ACCOUNTANT HELP YOU REBUILD?



A forensic accountant can support you in establishing accurate and comprehensive damages.

Plan for the best, but prepare for the worst. We all like to think that we live by this mantra – especially when your income is coming from your business.

However, after a disaster strikes, do you know where to turn for help with quantifying your losses for an insurance claim? Calculating the true cost of business downtime is a complicated task, which can quickly add to the chaos of disruption and rebuilding what was lost. This task is often best left in the hands of a financial expert, such as a forensic accountant.

The effects of catastrophic events and extreme weather, such as fires and floods, can take unexpected and unwanted tolls on businesses. Sadly, 40% of businesses don't survive the fallout from a disaster. This comes as no surprise when you realize the shocking fact that 75% of businesses in the United States remain underinsured, leaving so many elements to chance.

Business Insurance Coverage

While most businesses rely on some form of insurance to help them survive the negative financial impact of a disaster, too often the coverage falls short of fully protecting them from the expensive aftermath of a loss. A proactive defense, such as engaging in risk management and other security tactics, can only take you so far. However, when looking at insurance coverage, policies with property *and* casualty clauses are ideal because they typically include coverage for both physical property damage and for the lost earnings a company experiences during reconstruction. This type of policy is known as business income coverage.

Another type of insurance, business interruption insurance, is a time related policy which covers the net profits lost throughout the period following a disaster until normal business operations can resume. Forensic accountants have an essential role in determining the financial impact of an interruption by working with claims adjusters to establish a time period for the restoration and for accurately quantifying losses.

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Getting Back to Business as Usual

The bottom line in determining lost earnings following a disaster is understanding what the business would have looked like under normal conditions. In order to paint this picture, past financial records of the company must be inspected and scrutinized to identify patterns and trends. In addition, research performed within the company's financial statements can give a sense of how unusual circumstances may affect the business going forward and also reveal internal weaknesses that should be addressed internally.

Forensic accountants gain a comprehensive view of the situation in order to cover all related points of an investigation. This includes researching similar industries to the company being investigated and studying potential economic impacts at both a local and a national level. Ultimately, this assists in determining a fair market evaluation and estimation.

Calculating the Cost and the Time Element

Quantifying business income loss requires analysis of both pre and post-loss costs and revenue as well as estimating the period of business downtime:

- **Normal expenses** spent under a traditional business time period differ from expenses after a disaster occurs. There is a difference in cost to run a business in each situation. For example, loss of earnings *and* lack of expenditure when a business is not in service must be taken into account and calculated as part of a claim.
- **Revenue lost** is based on figures during normal business operations. The best way to estimate revenue lost during a period after a disaster is to analyze the earnings a similar business made during their own restoration period.
- A **period of restoration**, which occurs from the time the disaster took place to the time when normal business can resume – a realistic calculation is critical as the claim loss is measured over this duration. Because it is based on a projection and is affected by a number of variables, the time element component is one of the most disputed areas of business interruption claims.
- **Extra costs** which were required to facilitate the process from restoration to normal operations may be factored in as well, such as rent costs from a temporary work relocation.

40% of all business don't survive the fallout from a disaster.

In Summary

When your company faces significant financial loss from an unexpected interruption, a forensic accountant is one specialist you need on your advisory team to support you in establishing accurate and comprehensive damages. At Neumeister and Associates, we work with you and your insurance company to assess and calculate monetary and time losses. Our financial expertise can help you achieve an expedited claims process and get you back to doing what you do best, running and growing your business.

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