The "Other" Documents Needed For Business Valuations In A Family Law Case

By David Cantor, CPA/ABV

Everybody knows that in order to prepare a business valuation, certain financial documents are always needed; income tax returns, financial statements, general ledgers, etc. However, it is the other documents reviewed (or not reviewed) that may have a significant impact on the ultimate conclusion of value. It's these other documents that I will be talking about.

First, a little business valuation background. In the world of business valuations there are two types of valuations; family law valuations … and all other business valuations. Business valuations for a divorce case are their own little monster. In most non-family law valuations, the person preparing the valuation is relying on the documents provided as being accurate. Obviously, certain accounting/valuation adjustments are made during the course of their work, but these adjustments are usually not out of the ordinary in the business valuation world.

Now let's look at a family law valuation. Besides the standard adjustments that are made, we have to start looking at the "divorce" adjustments, and what documents are needed to find any of these adjustments.

RELATED PARTY TRANSACTIONS

Often times in small, family run businesses, the business may act as bank for the owners and family members. If you suspect that this is the case, then it will be necessary to request documents that may detail these transactions such as payroll for the non-owner family members, leases, automobile expense documents, family and shareholder loans detail, health insurance records and any other documentation that may detail money being paid to or on behalf of family members.

UNREPORTED INCOME ISSUES

Now I know that this hardly ever comes up in a divorce, but on those rare occasions that it does, there are additional records that should be reviewed. Obviously, these documents are industry specific, such as appointment books for professionals (to match appointments vs. reported income), cash receipts journals, bank records and sales invoices to attempt to match sales to actual deposits, inventory and cost of sales records to see if the cost of sales is consistent with the actual sales (for example, if a painter spends more money on paint then he collects in revenue, something may be amiss). These types of documents can really have in impact either on the value or to assure your client that their suspicions may be unfounded.

PERQUISITES

These expenses that are paid ***and*** deducted by the businesses will have an impact on the business as they will increase the true income of the business and in all probability increase the value. One of the most important documents needed for this analysis are the actual paid bills. However, before you ask for every paid bill from the business for the last several years, it would be beneficial to first review the general ledger and cash disbursements ledgers to fine tune your request.

OWNERSHIP DOCUMENTS

In some cases, there may be some ownership changes immediately preceding the filing for divorce. If this happens, you will want to see all documents related to this transfer of ownership as well as the overall history of the ownership.

BALANCE SHEET ITEMS

The balance sheet is part of the financial statement that shows all of the assets and liabilities of the business. I feel that it is important to document the balance sheet when I am preparing a full valuation report. This means getting the supporting documentation for all items on the balance sheet such as bank statements, credit card statements, asset and related depreciation schedules (let’s see if any of the family vehicles are in the business), loan schedules, accounts receivable and accounts payable reports as well as support for any other balance sheet items.

SHAREHOLDER LOANS

Let’s assume that there is a loan on the books from the owner/spouse. When this exists, please remember one thing; for every shareholder receivable/payable there is an equal personal payable/receivable. In other words, if the business books show a liability to the owner, then there is an equal receivable to the owner on the personal side. Often times this is overlooked. If this issue is missed, then the value of the business is too low and the community may not be equitably compensated if the loan receivable on the personal side is not assigned to the business owner.

The above items are by no way meant to be all inclusive. But knowing that there are additional documents that need to be reviewed for a family law valuation will put you in a position of knowledge to better serve your clients. Remember, the facts and circumstances of every case are different. There is no such thing as a “one-size fits all” document request list. FL

about the author

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David has worked on close to one thousand Family Law cases, ranging from small businesses to entertainers, professional athletes and executives from international companies. His experience covers all aspects of Family Law issues including; income determination, business valuations, separate property tracings, reimbursement claims and community waste issues. David has testified in Court as an Expert Witness over 100 times.

David graduated from Marshall University (Go Herd!!) in 1984 with a Bachelors of Business Administration degree.

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