

Financial Reconstruction in Business Disputes

How Experts Determine What Actually Happened

In many business disputes, the financial records alone do not clearly explain what occurred inside a company. Partners disagree about how money was used, owners suspect financial misconduct, or the accounting records appear incomplete or inconsistent.

In these situations, financial reconstruction can help determine how money actually moved through the business and when financial problems began.

Financial reconstruction is often used in cases involving partnership disputes, fraud investigations, business failure litigation, and claims involving lost profits.

What Is Financial Reconstruction?

Financial reconstruction is the process of rebuilding the financial history of a business using available records, transactional data, and operational information.

The goal is to answer key questions such as:

- How did money move through the business?
- When did financial problems begin?
- Were funds diverted or misused?
- Did operational decisions affect profitability?
- What financial impact resulted from disputed actions?

By analyzing financial data and operational records together, experts can develop a clearer picture of the business's financial activity.

Why Financial Reconstruction Is Often Necessary

In many disputes, financial records may be incomplete, inconsistent, or difficult to interpret.

Common issues include:

- missing bank records
- irregular accounting entries

- unexplained withdrawals
- undocumented expenses
- incomplete financial statements

Financial reconstruction helps organize and analyze these records to determine what financial activity actually occurred.

Key Steps in Financial Reconstruction

Although each case is different, financial reconstruction typically involves several stages of analysis.

Document Collection and Review

The process begins by examining available financial records such as:

- bank statements
- general ledger reports
- accounting system records
- tax filings
- payroll records
- vendor invoices

These records form the foundation for reconstructing the financial activity of the business.

Transaction Analysis

Individual transactions are traced to determine how funds moved through the business.

This may involve identifying:

- unexplained transfers between accounts
- payments to unknown vendors
- irregular withdrawals
- discrepancies between accounting records and bank activity

Tracing these transactions helps determine whether financial irregularities occurred.

Financial Timeline Development

A chronological timeline of financial events is created to show when changes in financial activity occurred.

This may reveal:

- when financial problems first appeared
- when irregular transactions began
- whether financial decline preceded the dispute

Understanding the sequence of events is often critical in litigation.

Operational Context

Financial reconstruction also examines how the business operated during the relevant period.

This may include analyzing:

- staffing levels relative to revenue
- cost of goods and gross margins
- inventory levels and working capital
- marketing expenditures and return on investment

Operational factors often explain financial outcomes that are not obvious from accounting records alone.

How Financial Reconstruction Helps Courts

Business disputes often involve complex financial information that can be difficult for judges and juries to interpret.

Financial reconstruction provides a structured analysis that can help clarify:

- the flow of funds within the business
- the causes of financial decline
- whether financial misconduct occurred
- the financial consequences of disputed actions

Clear financial analysis helps courts evaluate claims involving financial damages or allegations of mismanagement.

About A.J. Carrabus

A.J. Carrabus provides expert witness and litigation consulting services involving financial reconstruction, lost profits analysis, fraud investigations, and operational financial analysis.

With decades of experience as a business owner, financial executive, and operational leader, he analyzes financial records and operational data to determine how financial outcomes occurred within businesses involved in disputes.

His experience includes working with businesses across multiple industries including franchise systems, restaurants and hospitality operations, manufacturing companies, retail and e-commerce businesses, and service organizations.

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