



Forensic Accounting Today

Newsletter of Ron J. Anfuso, CPA/ABV - An Accountancy Corp.

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Issue 10

Get Timely Answers to Your Forensic Accounting Questions... and More

Although the majority of Family Law matters do not require the assistance of a Forensic Accountant, questions regarding Forensic Accounting frequently arise on less complex cases. Recently, we launched our company blog (blog.anfusocpa.com) to help provide Family Law attorneys answers to both common and atypical questions concerning Forensic Accounting.

Ask a Question Receive an Answer

Post any question you wish concerning Forensic Accounting on our blog. We will provide you with our response within 24 hours on business days. Additionally, we welcome comments from attorneys, Forensic Accountants and other related professional service providers.

View Past Newsletter Issues

Perhaps you read an article of interest from an earlier edition of Forensic Accounting Today. Within our blog, you will find access to past editions. Each link provides a summary of the respective issue's content, making it effortless to locate the article you wish to review.

Start and Participate in Discussions

We welcome participants to initiate and engage in discussions. Just post a new question or remark on an existing topic. All postings that concern forensic accounting that meet standards for professional behavior and netiquette will be approved by me.

I expect you will find our blog informative and useful.

Ron J. Anfuso CPA, ABV, CFF, CDFA, FABFA

Evaluating Law Practices Involved in a Divorce Matter

By Ron J. Anfuso, CPA, ABV, CFF, CDFA, FABFA*

Part 2

In the last issue of Forensic Accounting Today, I provided an overview of how law practices account for income and expenses, including insight into how an attorney can possibly underreport his or her income. In this issue, I am presenting you with an actual case study concerning income reporting.

The basis for this book chapter is an engagement related to dissolution of marriage action. The names of the parties involved have been changed to protect the innocent (or the guilty, as the case may be). This case involved a 17-year marriage, from which there were three children. The wife, Mrs. Smith, was a homemaker. The husband, Mr. Smith, was one of three senior partners in a law firm that practices admiralty and general maritime law. In addition, the firm practices civil, real property, environmental, probate, insurance and estate law.

Our accounting firm was engaged to:

1. Value Mr. Smith's interest in the law practice; and
2. To determine his gross cash flow available for spousal and child support. The proper and complete reporting of income affects both of these assignments.

The Los Angeles-based law firm in which Mr. Smith is a 33 percent owner employs more than 40 attorneys and boasts such clients as large oil companies and nationally known insurance firms. The law firm grosses more than \$10 million per year and, after adding back unreported income and perquisites, has a profitability factor of approximately 49 percent. This is about 6 percent lower than the average profitability by area of specialty, region, firm size and city population as reported in the 1994 Survey of Law Firm Economics (the most current survey available at the time of the engagement, which was based on 1993 data), developed by Altman Weil Pensa.

At the date of our valuation (which was determined by the attorney who engaged us), the practice was worth more than \$3 million. Mr. Smith's interest in the firm as a 33 percent shareholder was therefore worth more than \$1 million. His annual gross cash flow also was in excess of \$1 million, including unreported income and perquisites

* For an explanation of these titles, please visit our website or request a copy of Issue 3 of Forensic Accounting Today.

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Discover how Ron J. Anfuso, CPA/ABV, will OUTPERFORM YOUR CURRENT FORENSIC ACCOUNTING FIRM

Spend just 1 hour
with Ron. Enjoy
breakfast or lunch
on him.

That's all it takes
to find out why
Ron J. Anfuso,
CPA/ABV is the
better choice.

Call or e-mail
us to set up a
meeting



Why is it your forensic accountant won't return your phone calls?



**We have no
idea.**

All it requires is
being organized
and making you
and the clients you
refer their TOP
PRIORITY.

When you visit my office,
you'll see it's organized—
just like in the photo. No
clutter... neat folders... well
arranged computer files.
There's no wasted time
looking for documents,
so it's easy to be ready for
you. On days I'm in court, I
always get back to referring
attorneys and their clients
within 24 hours. That's a
promise those who refer to
me know I always keep.



(personal expenses ran through the law practice).

Many of the methods we employed for the valuation process are based on the standards and procedures used by the IRS. In response to criticism of the IRS for more aggressively conducting economic reality audits by training agents to “be more skeptical concerning the taxpayer’s return as filed,” the IRS adopted the practice of requiring only “reasonable indications of unreported income” before employing these techniques. This response was beyond what the AICPA suggested, which was to use the economic reality audit only if there is a documentable fact that backs up a reasonable suspicion of unreported income. Our standards of due diligence for divorce cases are closer to those used by the IRS in that we are required to perform a thorough forensic investigation in many cases where a suspicion of unreported income has been expressed by one of the litigants.

The Initial Interview

The engagement began with the formulation of a case plan. The main objective is to draw out, in an initial interview, the specific attributes of Mr. Smith’s law firm. Many useful planning procedures found in the Internal Revenue Service audit training guide for attorneys, 3149-102 (Rev. 6-94), have been incorporated in our guidelines, as follows:

Attorneys tend to answer questions literally and offer little additional information. As such, prepare direct, specific questions that will elicit quantitative or qualitative responses. Questions on how the practice started and areas of specialization will give insights into probable systems of accounting. Just the same, specifically ask for the system of accounting in place, the size and scope of the taxpayer’s practice, and what sorts of income and operating costs to expect. An effective income probe is crucial since unreported income is often an issue. All possible sources of income need to be identified and explained so that they cannot be introduced as explanations later.

In the next issue of Forensic Accounting Today, I will continue to discuss the interview process. Should you have questions concerning evaluating law practices, you are welcome to contact me at my office.

Evaluating Law Practices Involved in a Divorce Matter is an excerpt from “Income Reconstruction: A Guide to Discovering Unreported Income,” published by the American Institute of Certified Public Accountants.

Do You Need a Financial Expert to Speak to Your Study Group or Bar Event?

Ron J. Anfuso can address any Forensic Accounting topic, including Moore/Marsden; marital standard of living and support needs analysis; financial specialists and Collaborative Law; gross cash flow available for support; DissoMaster™; divorce tax issues; divorce: what to expect; and business valuations. To discuss your group’s needs, call Ron today!