



Forensic Accounting Today

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

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Issue 11

Thank You to the L.A. County Bar Association Family Law Section

I would like to express my gratitude to the Los Angeles County Bar Association Family Law Section and especially Seth D. Kramer, Esq., for selecting me to participate as a member of a panel at the 44th Annual Family Law Symposium. The event was held at the Universal City Hilton on May 19th. In addition, I wish to acknowledge Marshall Waller, our moderator and Judge Harvey Silberman and Commissioner Glenda Veasey, who served as fellow panel members, for their valuable input, support and encouragement. Lastly, I want to recognize everyone who attended our panel discussion. I hope all of you came away with information that will benefit your practices.



Left to Right: Judge Harvey A. Silberman; Ron J. Anfuso, CPA/ABV; Commissioner Glenda Veasey; Marshall W. Waller, Esq.

For those of you who were unable to attend, our presentation was entitled *Everything You Wanted to Know about Pay Stubs and Support Calculations (But Were Afraid to Ask)*. The panel began by explaining the data contained on W-2 forms and how to input data into support calculation software. We covered the many types of deferred compensation plans, including 401(K)s, 457(b)s, 403(b)s, Cafeteria Plans (IRC§125), and plans for certain small businesses and sole proprietorships. Our presentation concluded with an analysis of complex paystub data. Certainly, I welcome anyone who has questions concerning pay stubs and support calculations to contact me.

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Evaluating Law Practices Involved in a Divorce Matter

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

Part 3

In the last two issues of *Forensic Accounting Today*, I provided an overview of how law practices account for income and expenses, and introduced the background of an actual case study concerning income reporting. In this issue, I am providing the continuation of the case study. If you would like to review the initial Part 1 and Part 2 of this article, please visit our blog (<http://blog.anfusocpa.com>) and click on the link Forensic Accounting Today Newsletter Archive.

The Initial Interview (Continued)

Questions to ask, which are relevant when dealing with attorneys are:

- How much cash was on hand at beginning and end of year?
- Were any loan proceeds received?
- Were referral fees received from other attorneys?
- Was compensation received other than cash?
- Are there any foreign accounts or offshore interests?
- Are there any interests in other entities?

A thorough understanding of the taxpayer's bookkeeping system and internal controls is necessary. Have the attorney or the bookkeeper step through the recordation process from the point in which the attorney is retained by a client up to the settlement of the account. Is there another set of books apart from the one used for income tax purposes?

Ask for the bank records for all accounts including any investment accounts. Question the taxpayer about the use of each account. Depending on the size of the practice and the level of sophistication of the books, a number of different accounts may be used to pay expenses and deposit receipts. It is easier to ask up front and verify the information given than to try to decipher the numerous accounts later.

At the conclusion of the initial interview, you should have an understanding of the taxpayer's system of accounting, his or her level of involvement in that system, and who to go to with questions during the audit. In addition, the taxpayer's level of credibility can be established through comparison of the pre-audit analysis and information supplied during the interview.

By modifying the above IRS suggested planning procedures, and utilizing our own pre-determined planning procedures and interview questions, we determined which procedures and questions to ask Mr. Smith at the initial interview. In addition, it is our policy to perform financial statement

* 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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analysis of the company(ies) in question. One of the pre-engagement planning tools is the preparation of historical comparative financial statement spreadsheets. Typically, five or more years of balance sheet and income statement data, if available, are input into a spreadsheet with percentages as to total assets and gross receipts. This information is one of the factors to consider when valuing a company pursuant to IRS Revenue Ruling 59-60.


This is only the beginning of what the financial statement “spreads” as we call them can tell us. The percentage of net income to gross receipts can be compared to industry standards by year as a preliminary tool to determine if the practice is possibly understating income. Not reporting cash receipts by depositing them into a personal or other hidden account or just cashing the check is the first of the two most common methods of not reporting income. Drastic changes in expense accounts may indicate personal expenses or perquisites exist. Perquisites are the second of the two most common ways income is not reported. By concealing personal expenses as business expenses, an individual actually has evaded income taxes and disguised his or her income as legitimate business expenses.

The questions we asked of Mr. Smith to determine if he was properly reporting his income and if he had perquisites were as follows:

- What is your standard of living (monthly recurring living expenses after taxes, including such expenses as mortgage payments, car payments, laundry bills, grocery costs, clothing purchases, furniture expenses, children’s expenses, house maintenance {including domestic help} and entertainment costs)?
- Is your reported income sufficient to support your standard of living (i.e., is the reported income after taxes greater than the monthly expenses)?
- What is your accumulated net worth?
- When and how was this net worth accumulated?
- Has your reported income been sufficient to fund this accumulation? (We consider net worth to be accumulation of wealth from all sources, not just taxable income. These include loan repayments, sales of investments at a loss, refinancings of assets, gifts and inheritances, and gambling winnings.)
- What is your method of accounting?
- Are any of your cases handled on a contingency basis?
- When and how are contingency cases billed?
- What is their approximate value in billing?
- How long do you estimate it takes for contingency cases to get to trial?
- What personal expenses of yours are paid for by the law practice?
- What personal expenses for the other shareholders are paid for by the law practice?

At this interview, Mr. Smith informed us that the practice had discreet general ledger accounts. Each of the shareholders had individual general ledger accounts for expenses such as life insurance, entertainment, business promotion, travel and auto expenses. We received copies of the relevant documents and concluded our interview.

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.



“That ‘tough’ opposing counsel laughed when I sat down at the witness stand—

until she heard my testimony”

There are several reasons why Ron J. Anfuso is so effective in court. One that sets him apart from other forensic accountants is how much he welcomes being challenged by the most difficult circumstances. It’s all about his confidence, preparation, credibility and experience.



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

Just 1 hour

Spend just **one 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

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!