



Forensic Accounting Today

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

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Issue 12

Future Topics

I wish to thank all of you who have provided feedback, encouragement and support for *Forensic Accounting Today*. The enthusiasm and kind words so many of you have offered have been inspiring and so appreciated.

The purpose of our newsletter continues to be *to keep Family Law attorneys informed concerning the issues surrounding Forensic Accounting*. Therefore, you can count on future editions to carry on with editorial that provides answers to the most common and critical Forensic Accounting questions.

Based on inquiries we receive and issues we frequently address with referring attorneys and their clients, we have chosen the following topics for our upcoming newsletters:

- *Tracing engagements to determine post-separation reimbursements*
- *How to analyze marital standard of living*
- *How community and separate properties are determined in the state of California*
- *How to determine cash flow available for support*
- *Business valuation and goodwill*
- *How a forensic accountant can assist attorneys in gathering information to prepare subpoenas and trial questions*

Should there be other topics you wish me to address, please contact me via e-mail or post a proposed subject to our blog.

Ron J. Anfuso,
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Evaluating Law Practices Involved in a Divorce Matter

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

Part 4

Over the previous three issues of *Forensic Accounting Today*, I have provided an overview of how law practices account for revenue 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, focusing on calculation of unreported income. If you would like to review part one, two or three of this article, please visit our blog (<http://blog.anfusocpa.com>) and click on the link *Forensic Accounting Today Newsletter Archive*.

Calculation of Unreported Income

Many attorneys calculate their gross fees based on the money transferred from the client trust account(s) into the general account(s). At times, we have encountered attorneys who deposit fees into personal accounts, thereby bypassing the general accounts all together. In this particular case, we examined client ledger cards and discovered that cash receipts posted to the ledger cards were not accounted for in the cash receipts journal or the general ledger. Upon analyzing the bank reconciliations, we determined that these receipts were not deposited into the firm's bank accounts and therefore not included in the gross fees reported by the law practice. Apparently, Mr. Smith and his partners were cashing client checks and, in some instances, depositing them into personal bank accounts. These checks represented approximately 13 percent of the gross income of the corporation, or \$1.3 million.

Additionally, after inspection, we found checks from the trust account representing expense reimbursements that were endorsed directly to the attorneys. These reimbursements, for the most part, were for personal expenses. We determine which expenses are business versus personal on an expense-by-expense basis. For example, some expenses, such as psychiatric fees, are inherently personal. Others we need to inquire about with the client.

For life insurance, for example, we ask about the beneficiary. If the beneficiary is the firm (which is sometimes the case when the policyholder is a key member of the firm), then it is a legitimate business expense. If the beneficiary is the spouse or children,

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



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

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.



however, it becomes a personal expense. For automobile expenses claimed, we ask such questions as what the distance is between home and business because those commuting miles are not considered business miles according to the IRS. We also inquire about business use of the automobiles. Our goal is to determine the actual business mileage incurred and deduct that from the total miles claimed to determine the personal automobile mileage and therefore personal expenses.

We inspect credit card receipts used for travel and ask about purpose of travel. If the client doesn't provide us with information, we make estimates regarding how much of the expenses are personal based on our professional experience. For example, 50 percent of meal and entertainment expenses are not deductible per IRS code and are commonly considered personal expenses. Depending on the financial information used (i.e., tax returns versus financial statements), we estimate the amount of personal expenses deducted for net income purposes.

Following are the personal expenses for Mr. Smith that we culled out of the business expense ledger, with our determination supported by actual analysis and estimates based on personal experience:

Mr. and Mrs. Smith's automobiles:	\$87,045
Mrs. Smith's psychiatric bills:	\$38,700
Ski trips for the family:	\$12,525
Uninsured medical expenses:	\$119,529
Mrs. Smith's cellular phone:	\$17,826
Life insurance:	\$12,060
Entertainment and business promotion:	\$41,709
Disability insurance:	\$8,557
TOTAL	\$337,971

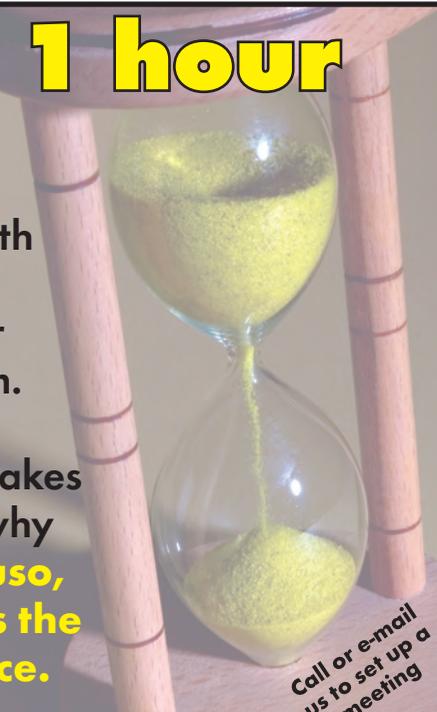
These personal expenses totaled \$ 337,971. Based upon our conversations with Mr. Smith, the other two shareholders enjoyed similar personal benefits paid for by the corporation.

In the next issue of *Forensic Accounting Today*, we will provide the final section of the article *Evaluating Law Practices Involved in a Divorce Matter*.

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!