

WHEN TO DECLINE A BUSINESS VALUATION REQUEST

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I am often asked by potential clients to determine the value of an ownership interest in a business. The prospect offers limited context, are coy about the purpose of the valuation, and an incomplete description of the business ownership interest being valued is provided.

IS IT WORTH TURNING DOWN A BUSINESS VALUATION?

When asked a simple question “please give me an estimate of what it’s worth, and how cheaply can you accomplish it?” my advice is to stay clear of these engagements, as they are a recipe for disaster.

BUSINESS VALUATION STANDARDS

According to the AICPA’S Statement on Standards for Valuation Services #1 issued June 2007: Valuations of businesses. Business ownership interests, securities, or intangible assets (hereinafter collectively referred to in this foreword as business valuations) may be performed for a wide variety of purposes, including the following:

1. Transactions (or potential transactions), such as acquisitions, mergers, leveraged buyouts, initial public offerings, employee stock ownership plans and other share based plans, partner and shareholder buy-ins or buyouts, and stock redemptions.
2. Litigation (or pending litigation) relating to matters such as marital dissolution, bankruptcy, contractual disputes, owner disputes, dissenting shareholder and minority ownership oppression cases, and employment and intellectual property disputes.
3. Compliance-oriented engagements, including (a) financial reporting and (b) tax matters such as corporate reorganizations; S corporation conversions; income, estate, and gift tax compliance; purchase price allocations; and charitable contributions.
4. Planning oriented engagements for income tax, estate tax, gift tax, mergers and acquisitions, and personal financial planning.”Under

UNDERSTAND THE PURPOSE OF THE VALUATION

You should not accept a valuation engagement unless one has a clear understanding of the purpose of the valuation. It is essential to know who the valuation is being performed for, the applicable standard of value (i.e., fair market

value, fair value) that needs to be applied pursuant to federal or state law, and whether the company is presumed to be a going concern or in liquidation.

KNOW WHEN TO SAY NO THANKS

These factors can have a very substantial impact on the scope of work to be performed and the approaches, methodologies, assumptions, and resulting conclusions/calculations of value. Absent this information, and a very clear understanding of the ultimate use of the business appraiser's work product (clearly articulated in an executed engagement letter), my advice is to decline the engagement.

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