

**Document Checklist**  
**for**  
**Business Interruption, Lost Income and Business Valuation Cases**  
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( ✓ ) Check item

1. General documentation, all cases:

- a. ( ) Valuation Date/Date of Injury
- b. ( ) Five years annual profit and loss statements prior to the valuation date/date of injury. These can be internally prepared or externally prepared or income tax returns. Income tax returns are considered most reliable due to being signed under penalty of perjury and subject to IRS audit. However, a claim of “privilege” is sometimes made and they are not available.
- c. ( ) Five years annual year-end balance sheets prior to the valuation date/date of injury, if available. In the case of small, unincorporated businesses, the owner might not prepare these statements, as they are not required for income tax reporting purposes. However, if there is a good internal accounting system maintained, these should be available
- d. ( ) Year-to-date profit and loss statements, balance sheets and detailed general ledger as near to the valuation date/date of injury as possible.
- e. ( ) The year-to-date detailed general ledger for the immediately completed year and as of the valuation date/date of injury.
- f. ( ) When the business is “cash basis”, a detailed aging of accounts receivable and a list of accounts payable at year-end for all years and as of the valuation date/date of injury. Cash basis companies should be converted to accrual basis to accurately restate cash basis balance sheet categories and net income. A cash basis business will often omit accounts receivable and accounts payable from their balance sheets. When accounts receivable are included in the balance sheet, they are usually reflected as “deferred income,” a liability, while the cash basis income statement will omit earned but uncollected income altogether. Even if the business already is on the “accrual basis” a detailed aged accounts receivable list is necessary to make some judgment as to the collectability of old accounts still carried as assets.

**2. In “Lost Profits/Lost Income” cases:**

- a. ( ) Financial statement income or individual earnings by month, pre- and post-injury date to as near to date of trial as possible.
- b. ( ) Time records of the injured party for a minimum of one year preceding the injury and post injury to date of trial in order to compare hours typically worked/time lost.
- c. ( ) In the case of professional services, copies of appointment calendars with a list of clients or patients who could not be rescheduled and therefore lost to some other service provider during the disability period.
- d. ( ) Birthday of injured party.
- e. ( ) Pre- and post-injury annual or hourly compensation, including benefits paid on behalf of the injured party, i.e., retirement plan, health insurance, etc.
- f. ( ) Employer’s Grade/Step salary schedule, when applicable.
- g. ( ) In the case of an injured business owner, replacement employee compensation paid, if any, during the disability period as well as any other “but for” business expenses.
- h. ( ) Additional personal living expenses, i.e., hired domestic help, yard maintenance, alternative transportation costs, etc and any other “but for” personal living expenses.
- i. ( ) The anticipated duration of the disability.
- j. ( ) Alternative income producing capacity during the disability period.
- k. ( ) Some computation by the injured party detailing how they calculate their lost income.
- l. ( ) A copy of opposing expert’s opinion of economic damages/losses.
- m. ( ) There will be some analysis required to answer the question whether some other changes in general business conditions could have caused or contributed to the alleged business profitability downturns other than the injury claimed.
- n. ( ) Monthly income statements for at least the prior year, preferably the prior 2-3 years, preceding the date of injury through the date of injury. Also, monthly income statements following the date of injury to date of trial so that trends such as seasonality can be analyzed and compared.
- o. ( ) Decedent’s personal consumption expenditures offsetting lost income projections in a wrongful death case. When estimated as a % of income, must know disposable, after-tax family income, family size and ages. Disposable income should be available in personal income tax returns. Where the cost of a case-specific consumption analysis is justified, actual spending patterns for the family should be documented. This could come from check registers, monthly bank statements and cancelled checks for a representative period prior to the injury.

**3. In “Business Valuation” cases:**

- a. ( ) Copies of Partner/Shareholder Buy-in/Buy-out agreements.
- b. ( ) Details of prior completed ownership Buy-in/Buy out transactions.
- c. ( ) Copies of any business purchase and sale agreements for the specific business.
- d. ( ) Life insurance coverage for principals for funding death/disability buy-outs.
- e. ( ) If equipment valuation is a material component of value, an equipment appraisal by leasing company or other qualified vendor or equipment auctioneer familiar with current values. Otherwise a detailed depreciation schedule is needed which reflects equipment acquisition dates, costs and depreciation taken. These are typically tax depreciation schedules.
- f. ( ) If there are real estate business assets, there should be a competent appraisal.
- g. ( ) Comparable or reasonable range of “replacement salary” for a competent general manager to replace the owner of the business with similar duties, responsibilities and time requirements.
- h. ( ) A list of owner/employee perquisites, such as business expenses, which are primarily for the personal benefit of the owner (i.e. personal use of company owned vehicles, extravagant expenses for Travel & Entertainment, recreation club memberships, etc), which would not ordinarily be available to a non-owner/general manager.
- i. ( ) Related party transaction details between the shareholder/business owner as an individual and their closely held company. These might include rental agreements at other than arms-length terms, detail of loans to/from the corporation with the owner. Are there loan formalities observed such as formal notes, repayment terms, market rates of interest, history of payments, etc? The issue is whether such loans by the company to the owner should be considered additional compensation. In the case of loans from the owner to the company, should these be considered additional capital contributions instead of true company liabilities?
- j. ( ) A threshold question is whether the financial statements are reliable, that is, whether there is some level of recurring skimming going on which would understate profits. This is an extremely difficult issue to track without substantial time and effort and its attendant costs to the client. If there are allegations of skimming, there should be enough details available of how this is done so the allegation can be verified.
- k. ( ) A detail of any “off balance sheet” assets, such as patents, trade secrets, life insurance policy equity, exclusive services or sales agreements, equipment leases not listed on the depreciation schedule, which have a nominal buy-out option at the end of the lease term.

**A successful forensic accounting engagement for lost profits/lost income or business valuation engagement is highly fact oriented. The more facts that can be developed in a**

**disputed issue, the more likely there will be a successful outcome, and the less likely any surprises will be confronted during testimony.**

This checklist is subject to changes and additions from time to time. Please check on my website for the latest version. . **Copies of this checklist are available for download at [www.GeorgeMLewellenCPA.com](http://www.GeorgeMLewellenCPA.com).**

**Please note:** This checklist is intended as a convenient guideline for the basic documentation commonly required in business interruption, lost income and business valuation matters. This checklist is not intended as exclusive and should not be relied upon as such. While this checklist is detailed and extensive, there could very likely be additional document requests when the initial review of these documents indicates a more thorough analysis of a transaction or series of transactions is warranted. Each case is unique in its own factual setting and should be approached from that perspective.

**Office Files/Attorney Articles/Document Checklist2**