



Forensic
Accounting
Offices
of
Cathleen
Collinsworth,
BVAL*

Business
Valuations

Family Law
Litigation Services

Expert Witness
Testimony

Forensic
Accounting

Fraud
Investigation

Small Business
Accounting

Tax Preparation

Trust Accounting



*Business Valuator
Accredited in Litigation
A Non CPA Firm

THE STANDARD OF VALUE

by Cathleen Collinsworth, CDFA™, BVAL

"I wish I could sell my business for that!" How many times have you heard your client say that after the valuation comes in? Well, it is a good point. Maybe the client could not sell it for that. What is wrong here? Has the forensic accountant gone nuts? Not on this account – it is perfectly legal, and it has to do with the Standard of Value. The outraged client is thinking of the value in the marketplace, Fair Market Value:

...the amount at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the buyer is not under any compulsion to sell, both parties having reasonable knowledge.

Did you catch that nuance? In Fair Market Value, the property changes hands, in Family Law, it does not. That causes a big difference in the standard of value used. And maybe a big difference in the value itself.

What choices do we have? Fair Value (Section 2000 dissolutions), Market Value (real estate), Liquidation Value (windups), Intrinsic Value (fundamental value), Going Concern Value (marketplace) and Book Value (what's on the books). There is one more: Investment Value. This is the value of the business to a particular investor, not just any investor in the market. It takes into consideration that investor's own requirements, e.g. risk aversion, earning power, synergy. In Family Law the special requirement is that a sale is not contemplated, therefore Investment Value is applied to the business of the earning spouse. In the absence of the market test, the only value the business can have is the value to the proprietor. This includes goodwill, according to California case law.

How is Investment Value calculated? Sometimes in the same way as Fair Market Value, provided the business is readily marketable. If it is not, say a law practice or a specialist medical practice, then procedures are more limited. One can't use comparable sales or Rules of Thumb. But the income approach can still be used by capitalizing income: gross or net income. The cost approach will produce a value from the appraisal value of the assets, or the cost to re-create the business. Either way, these values may not reflect the value in the marketplace, but they do reflect the value to the earning spouse. In the absence of the market test, that's the only basis for settlement.

Please do not hesitate to call if you have further questions, comments or would like additional information.

4000 Barranca Parkway, Suite 250 Irvine, CA 92604 (949) 262-3692 (949) 262-3693
29737 New Hub Drive, Suite 102 Menifee, CA 92586 (951) 679-8940 (951) 679-8986 (fax)

Toll free (888) 679-8940 | www.cccdfa.com | Cathleen@cccdfa.com