BizEquity & CPAs: A Valuable Pair

By Scott Gabehart

Chief Valuation Officer, BizEquity
(BA, MIM, CBA, CVA, BCA, CBVS)

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Although the BizEquity reports are not "certified", they **serve an invaluable function similar to that of so-called "Calculation Reports" as delineated in professional standards SSVS1 (Statement on Standards for Valuation Services) from the AICPA** in that there is a **limited scope of work involved and a pre-determined set of valuation methods** used to generate a calculated value .

Provided that the data is entered correctly (and no advisor is better suited for this task than a CPA), the valuation estimate will be credible and enjoy the same attributes and benefits of a calculated value from a "calculation engagement". **BizEquity is available to provide any supplemental training needed to optimize CPA usage** of the online algorithm and maximize client benefit .

A few of the more **salient points for CPA's considering the use of the BizEquity report** include:

1. The BizEquity Report is **similar in many ways to the "Calculation Engagement"** delineated via SSVS1
2. Although not suitable for litigation purposes, there are many circumstances wherein use of the BizEquity Report is an **extremely valuable proposition** for the CPA
3. The BizEquity Report is more than a valuation report, it is a **business performance review report** as well with financial benchmarks covering liquidity, solvency, activity and profitability that are compared to industry-specific norms
4. Perhaps most importantly, providing clients with the BizEquity Report is an exceptional tool for enhancing the **CPA role as the most trusted advisor** for business owners

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Similar to a calculation report, the BizEquity report does not result in an "opinion of value" but rather a "calculated value". A calculation report (or the BizEquity report) is typically requested by a client who is just trying to get a feel for a business value but does not want to spend the amount of money necessary to have a full valuation engagement performed.

Even though a calculation engagement or the BizEquity report do not provide the same level of assurance as a valuation engagement, they are a **viable, credible and far less costly alternative in many circumstances.** As stated by actual CPA's from across the USA:

1. A calculation engagement and report may be appropriate for settlement and mediation purposes, as support for an acquisition or sale of a business, or for tax and estate planning.
2. In my opinion, each of these engagements (including calculation engagements) has its proper place .
3. A calculation engagement is more appropriate when third-party reliance is not present .
4. Calculation engagements closely resemble agreed-upon-procedure engagements .
5. A client who needs to determine the value of his business in conjunction with a formula derived from a buy-sell agreement could determine the value through a calculation engagement .
6. Calculations of value can be useful for planning and to help negotiate settlements outside of court, but a client may need to upgrade to a valuation engagement if the settlement falls through.
7. Assume the purpose of the valuation is preliminary business planning to determine if selling the company might result in the ability to retire. A calculation of value might be perfectly acceptable as the goal is to estimate the value of the company to get an approximate idea of what a hypothetical willing buyer might pay. Any buyer that comes along would likely do their own due diligence to ascertain their own estimate of value. Thus, the calculation of value would essentially be a negotiating tool .

By **inserting the word *"BizEquity Report"* in lieu of *"Calculation Report"*** or "Calculation of Value" in the preceding list, one can quickly ascertain the role played by the BizEquity system and output.

CPA's are routinely surveyed to be the most trusted advisor of all (ahead of spouses and attorneys) and, accordingly, there is no better person to be able to comment on the probable value of the client's business. **The BizEquity report is an exceptional tool for facilitating and enhancing the CPA's role as advisor.**

By learning the basics of business valuation such as recognizing which "normalization adjustments" to make to to the earnings stream (a task that any CPA is readily able to tackle), the **CPA WILL be able to comment intelligently on the probable fair market value of his/her clients' most substantial asset of all.**

Importantly, **the BizEquity Report also includes numerous financial benchmarks related to the subject firm's performance in areas such as liquidity, solvency, activity and profitability** - in addition to the four distinct estimates of fair market value and liquidation value that are presented **(asset sale value, equity value, enterprise value and liquidation value).**
The benchmarks and the valuation estimates are based on a wide variety of industry-specific resources which are regularly updated.

Although the BizEquity report does not rise to the level of a "valuation engagement" in accordance with SSVS1 and is not suitable for litigation purposes, it still can **provide both the CPA and his/her clientele with numerous benefits which enhance their role as key business advisor.** In the event that you find a need for a "certified" report and do not wish to offer such services as a CPA, BizEquity is standing by to provide that service in a timely manner at a fair price.

Additional Perspectives

Valuation work performed by CPA's is unique in that they **all must follow (whether they are "certified" by the AICPA or IBA, etc. or not) professional standards SSVS 1,** which applies to an engagement or any part of an engagement that estimates value (either a calculated value or a conclusion of value) when the member:

1. **Applies valuation approaches and methods and**
2. **Uses professional judgment in that application**

Both a calculation engagement and valuation engagement include an ***array of specific requirements as to what must or should not be done, etc.***

Because of **SSVS 1** (Statement on Standards for Valuation Services), CPA's (not non-CPA's) will naturally be **contemplating how their use of the BizEquity tool fits into this standard.** When the CPA wears the hat of business appraiser, a **clear disclosure** to the client which ensures full understanding as to the nature of the role being played by the accountant must be forthcoming.

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The two general possibilities are that of an **advocate** or that of a **neutral third party:**

ADVISOR/CONSULTANT – CPA is acting as an *advisor or consultant* who is working on behalf of the client to determine the value (or transaction arrangement overall) which is most advantageous.

INDEPENDENT – CPA is acting as an *independent manner* to offer a fully objective appraisal.

There are at least **six situations when SSVS No. 1 does NOT apply,** including where:

1. The value of the subject interest is provided to the member by the client or a third party and the member (1) does not apply valuation approaches and methods and (2) does not report on the value of the subject interest

2. Mechanical computations do not rise to the level of engagement to estimate value (i.e., where the member does not apply valuation approaches and methods and use professional judgment) .

A more complete listing of the **"exception" situations** in which SSVS 1 is not applicable include:

1. Members who participate in estimating the value of a subject interest as part of performing an attest engagement.

2. When the value of a subject interest is provided to the member by the client or third party and the member does not apply valuation approached and methods as described in the statement

3. Internal use assignments from employers to employee members not in the practice of public accounting

4. Engagements that are exclusively for the purpose of determining economic damages.

5. Mechanical computations that do not rise to the level of an engagement to estimate value.

6. When it is not practical or not reasonable to obtain or use relevant information and as a result the member is unable to apply valuation approached and methods

Therefore, it appears that the **CPA must either "own" the valuation work and follow SSVS 1** (and perform either a calculation engagement or a valuation engagement) **or "rely on a third party" such as BizEquity** and its mechanical computations to provide feedback and suggestions in an advisor role (without applying valuation approaches and methods **and** using professional judgment) .

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The Big Picture

There are many considerations when contemplating the issue of CPA's and business valuation, but some of the main findings include:

1. A CPA can perform a business valuation without an additional certification, but they MUST follow the AICPA's SSVS 1 (see document titled *"AICPA Valuation Standards Fact Sheet"* for general information).

2. The AICPA recommends that CPA's obtain additional certification such as their own "ABV" (Accredited in Business Valuation) or the "CVA" (Certified Valuation Analyst), but it is NOT required to perform business valuation work.

3. Although additional certification is not required, a CPA without additional certification can NOT perform valuation services for the IRS, e.g. estate and gift tax reporting.

4. Section 6995A of the Pension Protection Act of 2006 provides definitions of a "qualified appraisal" and a "qualified appraiser", with the upshot being that only those with additional certifications who regularly perform appraisals for compensation capable of producing a qualified appraisal. The document titled *"Qualified Appraiser and Qualified Appraisal for IRS Purposes"* provides detailed insight into this situation.

5. Nonetheless, there are myriad reasons for and opportunities to use the BizEquity system and report which are consistent with SSVS 1 .

This document titled *"BizEquity & CPAs: A Valuable Pair"* has provided insight into why and how the BizEquity system and reports can be effectively utilized by CPAs in serving their business-owning clientele and building a dynamic rapport which would be otherwise difficult to achieve.