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New Business Valuation Standards

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Business valuation experts in family law cases rarely reach the same conclusion about the value of a business. Many times, the difference lies in the methods used to value the business and the information each accountant gathered. Because of this problem, new guidelines have been developed to increase the quality of valuation assignments. Although experts will no doubt continue to disagree about the value of businesses, at least now they will have to follow the same standards in valuing those interests.

Effective January 1, 2008, the American Institute of Certified Public Accountants (AICPA) will require all of its members to follow new guidelines for business valuations, including those relating to marital dissolution actions. The AICPA developed the valuation standard – called the Statement on Standards for Valuation Services No. 1 (SSVS#1) – to improve the consistency and quality of practice among its members who perform valuations.

SSVS#1 provides a comprehensive guideline for performing quality valuation services. Since AICPA has approximately 330,000 members, of which 2,500 hold the organization's Accredited in Business Valuation (ABV) credential, most business valuation experts will be subject to the new standard as members of AICPA. SSVS#1 provides the following benefits:

- Specifies generally-accepted valuation approaches.
- Encourages the standardization of the contents and format of business valuation reports.
- Describes the type of documentation that should be considered in the valuation process.
- Adopts a glossary business valuation terms.

When valuing a business, the expert should consider the three most common valuation approaches – the *income approach* (converting anticipated economic benefits into a present amount), the *market approach* (comparing the subject business to similar businesses that have been sold), and the *asset approach* (taking the value of the assets net of liabilities). The guidelines state that "rules of thumb" or industry guidelines are not a valuation method but may be used as a reasonableness check against the results found under the other methods.

Finally, the guidelines state that the expert must also consider whether adjustments should be made to the indicated value, including a discount for lack of marketability, a discount for lack of ownership control, or a premium for ownership control. If there is a conflict between SSVS#1 and a published judicial or other authority specifying the valuation procedures to be used by the expert, then the expert should follow the published authority.

The complete SSVS#1 and other helpful materials concerning the new standard may be found at *www.aicpa.org/bvstandard.* ■

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