

Collins Forensic and Valuation Services

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Calculating Income for Support Purposes

The following is a summary of how we calculate a self-employed person's income for spousal and child support purposes:

1. REVIEW OF DOCUMENTS. We review client provided documents including business and personal tax returns, business profit and loss statements and balance sheets, accounting general ledgers, etc.

2. INTERVIEW THE BUSINESS OWNER (WHEN POSSIBLE). By interviewing the business owner, we gain valuable insight into how the business operates.

3. DETERMINE THE COMPANY'S CASH FLOW. We determine the company's cash flow by adding up the company's taxable income, the owner's compensation, depreciation expense, amortization expense, and the perks received by the owner.

4. SEARCH FOR PERKS. We are often told by the out-spouse (the spouse not running the business) that the in-spouse (the one running the business) is using the Company's checking account or credit cards to pay for their personal expenses.

The most efficient way to determine the personal expenses being paid by the Company is to review the Company's meals and entertainment expenses, travel expenses, and auto expenses. We can adjust these expenses to reasonable amounts, if necessary.

To increase our accuracy in estimating the personal expenses paid by the Company, we request the Company's accounting general ledger to review the individual line item expenses underlying each reported total expense.

We can also request bank statements to verify the bank statement transactions are properly reflected in the Company's accounting general ledger.

We often also request business credit card statements to look for personal charges.

5. SEARCH FOR UNREPORTED INCOME. Sometimes we are told the in-spouse is not reporting all of their revenues. We can perform the following tests to see if the Company's reported revenues are reasonable:

We can add up all of the deposits on the Company's bank statements and compare the total deposits to the Company's reported revenues. Transfers between the Company's accounts should be removed from the deposit total, because transferred funds were most likely already considered income when they originally entered an account. If the total adjusted deposits are more than the reported revenues, there may be unreported revenues.

We can also request the personal bank account statements for the self-employed person to look for unusual deposits, which may actually be business receipt deposits.

Another method is to look at the Company's billing statements and corresponding payments to make sure the payments are reported in the Company's accounting general ledger.



6. LOOK FOR SIDS (SUDDEN INCOME DEFICIENCY SYNDROME). Often the in-spouse reports significantly lower profits (through lower revenues and higher expenses) around the time of separation from their spouse. We look for the business reasons and the non-business reasons behind the lower revenues, such as deferred billings or "trade out" payments. We also look for expenses that have significantly increased from prior periods.

7. WRITE A REPORT. We write a report to communicate our findings to the attorney and client, and possibly write a declaration.

Please call me with your comments at 916.756.5622.

— Thomas Collins, CPA / ABV, CFA