

Collins Forensic and Valuation Services

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Documents Needed to Value a Business

The following is a standard list of documents I request when valuing a business.

1. **TAX RETURNS, BALANCE SHEETS AND INCOME STATEMENTS FOR THE LAST FIVE YEARS.** Analyzing trends in a company's revenues, earnings, assets and debts over a five year period provides insight into the future profitability and the future health of a company.
2. **MOST RECENT YEAR TO DATE INCOME STATEMENT AND BALANCE SHEET.** This current information provides insight into a company's current financial health. However, partial year financial information does not always reflect accounting adjustments often made at year end for a company's depreciation expense, accounts receivable, inventory, work in progress, accounts payable and other liabilities.
3. **DETAIL OF THE COMPANY'S SIGNIFICANT BALANCE SHEET ITEMS.** This detail includes accounts receivable aging reports, accounts payable aging reports, inventory listings, etc. Business appraisers, with the help of management, can adjust these balance sheet items to their fair market value. Often adjustments are made to a company's books for uncollectible accounts receivable, old or spoiled inventory and outstanding liabilities.
4. **REAL ESTATE APPRAISAL** if the company owns real property or leases real property from a related party. Business appraisers value a company's operations separately from its real estate. To separate the value of a company's real estate from a company's operating value, business appraisers hypothetically charge companies rent for the use of their own property. A company's total value is determined by combining a company's operating and real estate values.

5. **SCHEDULE DETAILING FAIR MARKET VALUE OF ALL EQUIPMENT OWNED BY THE BUSINESS.** Often using a company's depreciation schedule is the best starting point to determine what vehicles and equipment are owned by a company. Sometimes these schedules are attached to a company's tax returns. Hand tools and small equipment are not always reflected on a company's depreciation schedule.
6. **DETAIL OF OWNERS' COMPENSATION OVER THE LAST FIVE YEARS.** Analyzing an owner's total compensation including profit sharing contributions and owners perquisites (commonly referred to as addbacks) allows business appraisers to determine the cash flow a business provides to its owner.
7. **KEY LEGAL DOCUMENTS.** Analyzing documents affecting the legal rights of the ownership interest being valued, such as a company's articles of incorporation and by-laws, partnership agreement and buy sell agreements assists the business appraiser in determining value.
8. **MISCELLANEOUS DOCUMENTS INDICATING THE COMPANY'S VALUE.** Offers received for purchase of the company or a previous business appraisal, as well as other miscellaneous documents provide insight into a company's value.



After reviewing the above information, I meet with the company's owners to gain a better understanding of the qualitative factors behind the company's financial information and the company's future prospects for growth and profitability.

Please call me with your comments at 916.756.5622.

— Thomas Collins, CPA / ABV, CFA