

# Contents

Foreword.....	xi
Preface .....	xiii
About the Author .....	xv
Acknowledgments .....	xvii
<b>Chapter 1 Forensic Accounting Overview .....</b>	<b>1</b>
The Goal Is to Dominate.....	1
How a Forensic Accounting Divorce Engagement Case Can Go Very Well .....	3
Forensic Accounting Defined .....	6
<b>Chapter 2 Meeting and Engaging CPAs .....</b>	<b>17</b>
How CPAs Become Forensic Accountants .....	17
Shopping Forensic Accountants Before One Is Needed.....	18
Selling Your Client on a Forensic Accountant .....	22
Engaging a Forensic Accountant When You Have a Specific Client and Case .....	24
Consulting or Testifying Expert?.....	28
Reading, Understanding, and Explaining the Engagement Agreement.....	30
Advice to Lawyers When Hiring a Forensic Accountant .....	31
The Game Is On—Getting the Documents as Soon as Possible .....	32

**Chapter 3 Accounting for Lawyers ..... 35**

- Accounting Basics ..... 36
- Public Filing of Financial Statements..... 40
- Accrual and Cash Basis ..... 41
- They Call It “Accounting” Because of the Accounts..... 43
- Audits, Reviews, and Compilations..... 52

**Chapter 4 The Hunt for Hidden Assets—Red Flags, Schemes, Scams, Lies, and Damn Lies ..... 57**

- The Continuum of Lies ..... 58
- Red Flags ..... 60
- Severity of Lies ..... 64
- Financial Lies Come in Many Flavors..... 65
- “What Is Best in Life?” ..... 68
- More on Bad Debt Manipulation..... 69
- More Details on Other Schemes ..... 71
- Adjustments ..... 73
- Managing Forensic Accounting Investigation Costs ..... 75

**Chapter 5 Discovery—Documents, Details, and Transactions ..... 77**

- The Impact of One Missing Statement ..... 78
- Time Frame for Valuation and Analysis ..... 78
- Formal vs. Informal Requests..... 79
- Interrogatories and Requests for Production of Documents..... 81
- Written Discovery or Depositions?..... 84
- The Search for the Holy Grail and the Discovery Catch-22..... 85
- Subpoenas ..... 88
- Depositions ..... 97

Supplementation .....	98
Discovery and Research about Opposing Experts .....	98
Obtaining Tax Documents Directly from the IRS .....	99
Researching Public Records and Assets .....	100
Production Memos, Deficiency Memos, Gap Charts, and Bates Stamping .....	101
<b>Chapter 6 Methodologies, Investigation, and Techniques....</b>	<b>107</b>
Methodologies and Scoping .....	110
Investigation.....	116
Techniques .....	116
Conclusion .....	133
<b>Chapter 7 Asset Identification, Classification, and Valuation—From Simple to Complex.....</b>	<b>135</b>
Organizing Assets and Debts .....	137
Identification .....	140
Classification .....	141
Valuation .....	141
The Information Needed Depends on the Assets and Debts .....	142
Calculating Estimates of the Value of Deferred Pension Benefits .....	144
Complex Compensation, Bonus Packages, and Perks.....	154
Stock Options .....	157
Documents You Need for Stock Options .....	158
Stock Option Valuation.....	159
Reload Provisions .....	160
Time Rule Formulas .....	161
Tax Issues.....	161

Deferred Distribution Approach .....	162
Negotiating .....	162
Advice Regarding Deferred Distribution Division .....	163
Buffet of Employment Benefits and Retirement.....	163
Qualified vs. Non-qualified Plans .....	166
Defined Benefit .....	166
Defined Contribution .....	167
Investments Unrelated to Employment.....	170
Other Investments Not Related to Retirement or Employment .....	171
<b>Chapter 8 Determining Income .....</b>	<b>187</b>
Documented Income .....	189
Claimed Income versus Documented Income .....	190
Imputed Income .....	194
Net-Worth Method.....	195
Problems with Cash and “Cash Businesses” .....	201
Money In and Money Out of a Business .....	203
Reading W-2s—The Family Lawyer’s Not-So-Concealed Weapon.....	205
FICA, Medicare, Self-employment Taxes, FUTA, and SUTA .....	206
Wage Base Limit.....	206
Numbers, Numbers, and More Numbers—Yippee! Goody! Goody!.....	206
<b>Chapter 9 Lifestyle Analysis .....</b>	<b>211</b>
The Five Quadrants.....	212
Quadrants One and Two .....	213
Quadrants Three and Four .....	213

The Fifth “Quadrant”—Credibility.....	215
Expense Time Periods .....	215
The Lifestyle Analysis .....	217
A Sample Report .....	223
Page 1—Marital Balance Sheet .....	224
Page 2—Wife’s Need for Support .....	235
Pages 3 and 7—Wife’s Retirement Savings and Husband’s Retirement Savings .....	238
Pages 4 and 8—Wife’s Investment Savings and Husband’s Investment Savings .....	238
Pages 5 and 9—Wife’s Personal Living Expenses and Husband’s Personal Living Expenses .....	239
Page 6—Husband’s Ability to Pay Support.....	239
Page 10—Net Worth Accumulation of Marital Assets .....	239
Double-dipping .....	240
<b>Chapter 10 Ethics and Standards.....</b>	<b>243</b>
AICPA’s Code of Professional Conduct .....	244
AICPA’s Independence Requirement.....	246
AICPA’s Rule 102.....	249
AICPA’s Rule 201 .....	251
CPAs and Client Confidentiality .....	258
Contingency Fees, Unpaid Fees, and Future Streams of Income.....	259
AICPA’s Statement on Standards for Consulting Services.....	262
AICPA’s Statement on Standards for Valuation Services .....	264
Special Report 08-1 .....	265
<b>Chapter 11 Reports and Testimony .....</b>	<b>267</b>
Report Requirements .....	268

The Scheduling Order.....	274
Preparing for an Opposing Expert Deposition.....	276
What Deposition Style Should You Use? .....	279
The Deposition Questions .....	280
Scoping Out the Opposing Expert .....	281
Defending Your Client’s Expert Deposition .....	282
Strategic Decision: Old School vs. New School.....	283
Trial Preparation .....	284
Direct Examination of the Client’s Forensic Accountant .....	286
Exhibits .....	286
Planning the Direct Examination.....	288
The Opinion and Attack Phases .....	303
Cross-Examination .....	304
Conclusion .....	307
<b>Bibliography .....</b>	<b>309</b>
<b>Appendix A Burrage &amp; Johnson Agreement.....</b>	<b>313</b>
<b>Appendix B Sample Company Financial Statements .....</b>	<b>321</b>
<b>Appendix C Riker Report .....</b>	<b>325</b>
<b>Appendix D Deposition Question Checklist: Opposing Forensic Accountant .....</b>	<b>351</b>
Index .....	373