



Forensic Accounting Today

Newsletter of Ron J. Anfuso, CPA/ABV - An Accountancy Corp.

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Issue 13

Practice News

On July 31, I presented a webinar to Family Law attorneys entitled, **Analyzing Tax Return Data (as it related to income available for support)**. The event was sponsored by the *State Bar of California Family Law Section*. Webinar content included an analysis and interpretation of business and personal tax returns as it relates to gross cash flow available for support calculations. We discussed what items to look for, and addressed how to convert income to cash flow for support calculations, in addition to how to input the data into support calculation software.

The initial topic I focused on was how to prepare gross cash flow. This included the sources of cash flow—individual income tax returns, C-Corporations, S-Corporations and partnerships.

Next, I addressed support calculation software input reconciliation— cash flow versus taxable income.

Thirdly, I concentrated the discussion on support calculation mechanics, including settings, tactics, input of cash flow information, and analyzing and understanding results.

To enhance the attendees' grasp of this subject, I presented a detailed case study, which partially focused on proper input of information into IRS tax forms. These included Form 1040, Schedule A, Schedule B, Form 1120 (U.S. Corporation Income Tax Return), Form 1120S (U.S.

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Evaluating Law Practices Involved in a Divorce Matter

By Ron J. Anfuso, CPA, ABV, CFF, CDFA, FABFA*

Part 5

Over the previous four issues of *Forensic Accounting Today*, I have provided an overview of how law practices account for revenue and expenses, and introduced the background of an actual case study concerning income reporting. In this issue, I am providing the final portion of the case study. If you would like to review part one, two, three or four of this article, please visit our blog (<http://blog.anfusocpa.com>) and click on the link *Forensic Accounting Today Newsletter Archive*.

Finding Other Unreported Income

Identifying personal expenses is one of the steps in our forensic investigation. Another step is examining the client's and/or spouse's bank accounts for money not accounted for in the tax returns. In cases in which there are business or personally guaranteed loans, personal financial statements of the parties may be on file with the bank. Banks normally maintain customers' records for at least two years and often for as long as seven years. Attorneys can subpoena deposit slips, cancelled checks, signature cards, bank statements and other relevant information that can assist in the forensic investigation.

We look for patterns in checks deposited or issued. Red flags are large deposits made to the personal account that do not constitute either regular salary checks or expense reimbursement checks. For example, we found four large checks totaling more than \$425,000 deposited into Mr. Smith's personal bank account during a two-month period. We verified that these checks were not regular salary checks or expense reimbursements. A closer examination of the accounts receivable aging report for the same period revealed that there was approximately \$1.3 million of accounts receivable written off with no explanation. This amount represents just over three times the amount deposited into Mr. Smith's personal account. We requested that the attorney

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* For an explanation of these titles, please visit our website or request a copy of Issue 3 of *Forensic Accounting Today*.

Just 1 hour



Spend just
one hour with Ron.
Enjoy breakfast or
lunch on him.

That's all it takes to discover why
Ron J. Anfuso, CPA/ABV
is the better choice.

Call or e-mail us to set up an appointment

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Income Tax Return for an S Corporation), Schedule K-1 (Shareholder's Share of Income, Deductions, Credits, etc.), and Form 1065 (U.S. Return of Partnership Income). Subsequently, I presented an example of reconciliation of cash flow to support calculation software input.

I thank each of you who took the time out of your busy schedule to attend the webinar. All of you who were present, as well as those who were unable to attend, are welcome to contact me with questions concerning this subject. It will be my pleasure to assist you.

Ron J. Anfuso,
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subpoena the records from the various clients and when the documentation was produced we had clear and convincing evidence that the three shareholders had colluded with one another to not report this income. Is this evasion of income taxes? You bet.

We get further clues as to the nature of unreported income by taking photocopies of the front and back of other checks produced pursuant to subpoena from the law firm's clients and examining both who endorsed them and where they were cashed. This information may establish a money trail leading to the attorney or other parties and entities directly related to the lawyer. If the link is established, it is possible to determine other amounts of income, which has been diverted from the books and records of the practice.

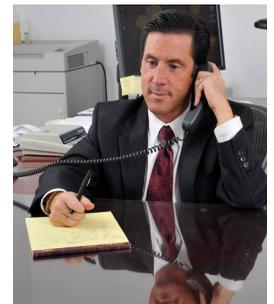
Debit and credit memos can be another source of information. In our experience, we have discovered other bank accounts by examining these documents, which can point to international or domestic wire transfers, payments or repayments of loans, transfers between accounts (thereby leading to discovery of accounts previously unreported), and purchases of cashiers' checks.



Why won't your forensic accountant return your phone calls?

All it requires is being organized and making you and the clients you refer their TOP PRIORITY

When you visit my office, you'll see it's organized— just like in the photo. No clutter... neat folders... well arranged computer files. There's no wasted time looking for documents, so it's easy to be ready for you. On days I'm in court, I always get back to referring attorneys and their clients within 24 hours. That's a promise those who refer to me know I always keep.



Need a Financial Expert to Speak to Your Study Group or Bar Event?

Ron J. Anfuso can address any Forensic Accounting topic, including Moore/Marsden; marital standard of living and support needs analysis; financial specialists and Collaborative Law; gross cash flow available for support; DissoMaster™; divorce tax issues; divorce: what to expect; and business valuations. To discuss your group's needs, call Ron today!