

Financial Valuations, Applications & Models¹

This paper will discuss the following items which are key to the auditor's work in measuring fair value. The major topics covered are:

- Understanding the provisions of SFAS No., 157, *Fair Value Measurements*, and its impact on measuring fair value,
- Understanding the measurement of fair value from the perspective of the outside valuation specialist, and
- Working with a valuation specialist in developing fair value measurements for financial reporting purposes.

The trend in financial accounting is to consider more current based accounting rather than historical cost based accounting. The Financial Accounting Standards Board (FASB) pronouncement SFAS No. 157, *Fair Value Measurements*, provides additional clarification as to the definition of fair value and the application of various methods to estimate fair value as they relate to the measurement of assets and liabilities. Many other standards in financial accounting utilize the concept of fair value. Two of the more common statements that utilize this measure are SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and other Intangible Assets*.

Due to the complexities often involved in measuring fair value, management of a business entity may retain an outside valuation specialist to assist in estimating the fair value of various assets and liabilities. As such, it is important for both the management of a business entity and the auditing team to understand the concept of fair value from the perspective of a valuation specialist and how it is measured.

Of primary concern to both management and the auditing team is how to measure and appropriately apply the guidance provided in SFAS No. 157. In many cases, working with an outside valuation specialist (analyst) is needed.

The use of outside experts such as a valuation specialist is discussed in the AICPA's Statement of Auditing Standards No. 73 ("SAS 73").² SAS 73 defines a specialist as "a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing." A valuation specialist is a person or firm that has unique relevant knowledge and financial analysis skills related to the valuation of business interests as it relates to estimating the fair value of those interests for financial reporting purposes. Specific business

¹ The author wishes to thank Mark Zyla, CPA/ABV for providing the basis for this paper.

² SAS 73, paragraph .01.

interests often include assets (particularly intellectual property and other intangible assets) and liabilities of the business enterprise.

Valuation specialists are often involved in fair value measurements for financial reporting purposes in one of two ways. Management often retains a valuation specialist to assist with the fair value measurement of the business enterprise (reporting units) or specific intangible assets (such as technology, customer relationship, trade names, etc.) for financial reporting purposes. The company's management may also use the work of the valuation specialist as audit evidence related to the fair value of certain assets (particularly intangible assets) in the allocation of purchase price or the testing of impairment of long lived assets or goodwill. Under Sarbanes-Oxley and the AICPA's Interpretation 101-3, the valuation specialist must be independent of the company's outside auditing firm.

Often a second set of valuation specialists are retained in fair value reporting by the company's outside auditors themselves. The company's outside auditor may retain a valuation specialist or use a valuation specialist employed by the auditing firm as part of the audit team to assist with the analysis of the work of management's outside specialist. Many firms require the audit team's valuation specialist to prepare a memorandum discussing the evaluation of the work performed by management's valuation specialist. Since the auditor's valuation specialist is not issuing a valuation opinion per se (in other words, not developing an opinion of value), the audit team's specialist is considered independent.

Both management and, if possible, the company's outside auditor, should be comfortable with the qualifications of the valuation specialist selected prior to the beginning of the engagement. Careful review of the specialist's résumé and statement of qualifications, including the valuation specialist's credentials, must be done. The valuation specialist should have experience not just with valuation issues in general, but also with valuations issues specifically related to financial reporting under GAAP.

The following paragraphs describe some of the valuation credentials:

CPA/ABV: The Accredited in Business Valuation (ABV) is a designation provided by the AICPA for CPAs who regularly perform valuations of businesses and business interests such as intangible assets. CPAs who are granted the ABV credential by the AICPA meet certain required education and valuation experience levels and in most cases have passed a rigorous examination. The ABV is granted only to licensed CPAs. The AICPA has recently issued detailed valuation standards which must be followed by all CPAs or individuals working for a CPA firm, whether or not a CPA. Additional information about the ABV credential can be found on the AICPA's website at www.bvfls.aicpa.org.

ASA or AM: The ASA designation is granted by the American Society of Appraisers (ASA). Business valuation specialists are credentialed by the ASA with either an Accredited Senior Appraiser, "ASA" or an Accredited Member,

“AM” designation. In order to receive a designation, a candidate must have either two years (AM) or five years (ASA) of full-time equivalent business valuation experience. Most individuals attend four three-day educational classes, which are each followed by a three day exam for their education requirements. All candidates are required to submit two valuation reports for peer review to receive the credential. The ASA also has specific standards for business valuation specialists. Additional information about the ASA credentials can be found at www.bvappraiser.org.

CVA, CBA, and CBV: Other organizations that provide business valuation credentials and standards are the National Association of Certified Valuation Analysts (NACVA) which provides a CVA designation (www.nacva.org), The Institute of Business Appraisers (IBA) which provides a CBA designation (www.go-iba.org). Valuation specialists in Canada can be credentialed by The Canadian Institute of Chartered Business Valuators which provides the CBV designation (www.cicbv.ca).

In addition to valuation credentials, the valuation specialist should have experience with the fair value measurements in financial reporting. Valuations for financial reporting have particularly unique issues, so a valuation specialist should have experience with valuations for this particular purpose.

ESTIMATING FAIR VALUE FROM THE PERSPECTIVE OF A VALUATION SPECIALIST

When working with a valuation specialist, there are four basic concepts under SFAS No. 157 which should be understood:

- The standard of value
- “Market participants”
- The three basic approaches to value and the various valuation techniques under each approach
- Remaining useful life of the asset

The Standard of Value: Definition of Fair Value

One of the primary considerations that a valuation specialist will follow at the onset of an engagement is to determine with the assistance of the attorney, accountant or management, the proper standard of value that is appropriate for a particular valuation engagement. The standard of value is the definition of value that the valuation specialist will utilize during the course of the valuation engagement. The standard of value provides guidance to the valuation specialist

regarding assumptions and methods that may be appropriate for the particular valuation.

Under SFAS 142, fair value is defined as:

... the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.³

Under SFAS No. 157, fair value is defined as:

... the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.⁴

Fair value in financial reporting is often confused with other standards of value. Fair value is *not* investment value, which is the value to a particular buyer. Fair value is also not fair market value, which describes the value when there is a hypothetical buyer and seller and is the standard of value for tax reporting requirements. Fair market value is defined by the Internal Revenue Service in several code sections as well as in Revenue Ruling 59-60. It is defined as:

... the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.⁵

The FASB considered adopting this definition of fair market value as the basis for fair value in financial reporting. One reason that the FASB eventually revised the definition as presented in SFAS No. 157, is that it did not want to inadvertently incorporate precedent from Tax Court cases involving fair market value into the definition used for financial reporting.

Although the concept of fair value for financial reporting is still evolving in authoritative accounting literature, several characteristics have been established. Fair value is:⁶

- Generally established on an asset-by-asset and a situation-by-situation basis
- Always a control value

³ SFAS 142, paragraph 23.

⁴ SFAS No. 157, paragraph 5.

⁵ Rev. Rul. 59-60, 1959-1 CB 237 – IRC Sec. 2031.

⁶ Zyla, Mark L. , “Auditing Fair Value Measures,” *The Practicing CPA Online*, October 2003, <http://www.aicpa.org/pubs/tpcpa/oct2003/auditing.htm>.

- Is not associated with individual assets that include buyer's synergies. Synergies are included as part of goodwill
- May include tax amortization benefits
- Net of "cost to sell"
- Only considers "market participants" in the assumptions

Asset by Asset and Situation by Situation: When estimating the fair value of specific assets for an allocation of purchase price, the valuation specialist, using guidance from SFAS No. 157, considers assumptions in determining the fair value on an asset by asset basis or groups of assets by groups of assets. In other words, the valuation specialist considers the fair value of the assets or groups of assets (bundled technology, for example) as individual acquisitions. The purpose of this assumption is to eliminate any impact of the specific transaction itself that may impact fair value, such as specific tax structure of the transaction. This assumption is consistent with the concept of market participant described in SFAS No. 157.

Control Value: When a valuation specialist estimates fair value, s/he assumes that the ownership characteristics of business interest such as a reporting unit or an individual asset will be on a control basis, meaning that the owner has the right to determine the use or direction of the interest or the individual asset. The reason for this assumption is that ownership interests with less than control incur additional risk and thus may warrant discounts from an initial estimate of fair value. However, this additional risk is typically not present in fair value measurements under SFAS No. 157.

Synergies: SFAS No. 141 describes goodwill as being comprised of six elements, one of which is, "the fair value of expected synergies and the benefits from combining the acquiring entity's and the acquired entity's net assets and liabilities."⁷ Since any value created solely from the transaction is considered synergy, this aspect of fair value should be recognized as part of goodwill.

However, any value from synergy created in the transaction that any market participant would realize, may be included as part of the fair value of the individual assets acquired. Value created from synergy may be present in the assumptions in the projections used to estimate fair value. The valuation specialist should discuss with management the assumptions behind the projections and make a determination if the assumptions include value creation from synergy. One way to eliminate any impact from potential synergy is to assume that the acquired company is on a "stand alone basis" without any impact of the business combination.

⁷ SFAS 141, B102.

Tax Amortization Benefit: When using an income approach to estimate the fair value of an intangible asset, the cash flows attributable to the intangible asset are utilized on an after tax basis. One factor that a valuation specialist must consider is whether or not it is appropriate to include any value in the intangible asset from something known as its “amortization benefit.” The amortization benefit is an increase in the value of an asset due to the reduction in taxes from the expense of the amortization of the intangible asset. The applicability of an amortization benefit is situational and may depend on the approaches and methods under each approach used to estimate fair value.

Net of “Cost of Sale” (Exit Price): Fair value measurements are determined without consideration as to the impact of any costs to sell that asset. SFAS No. 157 states, “therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).”⁸

Market Participants: The concept of market participants is still evolving. In general, however, the market participant’s concept requires the valuation specialist to use assumptions that encompass all potential buyers for the particular business interest or individual asset or liability. Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability and must be:

- Independent of the reporting entity; that is, they are not related parties
- Knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary
- Able to transact for the asset or liability
- Willing to transact for the asset or liability; that is, they are motivated but not forced or otherwise compelled to do so.⁹

The AICPA Practice Aid, *Assets Acquired in a Business Combination to be used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries*, has a brief discussion about the concept of market participants –

it is presumed that absent evidence to the contrary, the assumptions used by the acquiring company and the acquired company in negotiating the value of the consideration exchanged in the transaction is indicative of the assumptions that market participants would use in making estimates of fair

⁸ SFAS 157, paragraph 7.

⁹ Ibid., paragraph 10.

value.¹⁰ If the acquiring company pays the owners of the acquired company any significant consideration for synergistic or strategic benefits in excess of those expected to be realized by market participants, the valuation specialist would identify those excess benefits and remove them from the valuation of assets acquired. The ultimate assumptions used in making estimates of the fair value would reflect the best estimate of how market participants would benefit from use of the asset being valued.¹¹

VALUATION TECHNIQUES (APPROACHES TO DETERMINING FAIR VALUE)

There are a variety of approaches to determining fair value. When working with a valuation specialist, an entity's management should understand what the basic approaches to value in general are. A valuation specialist uses various methods after considering the applicability of each approach. SFAS No. 157 refers to these methods as "valuation techniques." *The Practicing CPA*, an online publication of the AICPA, provides a discussion on what an auditor should know about the three approaches to value when auditing fair value measurements. These concepts should also be understood by management when preparing financial statements with fair value measurements.

Basic Approaches to Valuing any Asset or Business Interest¹²

There are three basic approaches to valuing any asset or business interest. Although many different valuation methods may be used to determine fair value, all of these methods fall under one of the three basic approaches to value: the cost, market, and income approaches.

The concept underlying the *cost approach* is that the fair value of an asset or even an entire business is estimated by the current replacement cost of the asset or the entire business. Replacement cost of the asset is what it would cost to replace the asset or an entire business with an asset or group of assets of comparable utility. The cost approach is often used to estimate the value of specific assets, such as a building or machinery and equipment, or certain intangible assets such as customer relationships. Because of its nature, however, the cost approach is difficult to apply in estimating the fair value of an entire operating business.

The market approach estimates fair value by comparing a financial measurement or other metric of the subject company to a multiple of similar financial

¹⁰ SFAS No. 141, paragraph B174, provides that an entity may use the estimates of cash flows if market participant assumptions are not available without undue cost and effort.

¹¹ AICPA Practice Aid, *Assets Acquired in a Business Combination to be used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries*, paragraph 1.1.04.

¹² Zyla, Mark L., "Auditing Fair Value Measures" *The Practicing CPA Online*, October 2003, www.aicpa.org.

measurement or metric of a similar guideline company whose shares are transacted in the market place. For example, a commonly used financial measurement is a multiple of price to earnings or P/E ratio. The market approach is easily understood in that it estimates value through transactions of similar assets or business interests in the market. The difficulty in applying the market approach, particularly in estimating the value of intangible assets, is in identifying guideline assets or business interests similar enough to support a valid comparison.

The *income approach* estimates value through the expectation of future cash flows that the asset or business interest will generate, discounted to the present at a risk adjusted rate of return commensurate with the risk of actually receiving the cash flows.

One method commonly used under the income approach is the discounted cash flow method. The discounted cash flow method can also be used to estimate the fair value of a specific intangible asset by estimating cash flows that can be generated by the entire business and deducting fair returns on all of the other assets that contribute to the generation of the cash flow. This method is sometimes also referred to as the multi-period excess earnings method. The residual cash flows after deducting returns on all of the other assets are what are generated by the specific intangible asset. The present value of the residual cash flow is discounted at a rate reflective of the risk of the intangible asset in order to estimate the fair value of the specific intangible asset.

These three approaches, in theory, should all point to similar indications of fair value. In reality, however, only one or two approaches may be appropriate given the type of intangible asset or business interest.

In spite of the theory that all approaches should provide a similar indication of value, the FASB has expressed a preference for the use of observable market prices under the market approach as a primary indication of fair value wherever sufficient information is available. Consequently, the valuation specialist should focus on the market approach as a primary method where appropriate, supported by the cost and income approaches. In any event, valuation specialists should use assumptions in their analyses that reflect overall market participants in each of the methods under the three approaches of estimating fair value. For further discussion of approaches to value, see Appendix I: Valuation Approaches to Estimating Fair Value; Auditing Fair Value Measurements and Disclosures, page 28, of the "Toolkit for Auditors" (www.aicpa.org/download/auditstd/finaltoolkit.pdf).

Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*

The FASB has also issued Statements of Financial Accounting Concepts (CON) which provide additional guidance in concepts in financial accounting. One of the

concepts CON 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, distinguishes between two theoretical approaches to using present value techniques in estimating fair value. The two theoretical approaches can be described as:

1. Discounting a single set of expected cash flows at a discount rate which reflects the risk of eventually receiving those cash flows. In this method the risk is incorporated in the development of the discount rate.
2. Discounting various scenarios of probability-weighted cash flows at a discount rate that only reflects the time value of money. The risk of receiving the cash flows is reflected in the selection of the probability factors for each scenario.

While many view the second technique as being the more “theoretically” correct method to estimate the fair value of an asset through the present value of its future cash flows, as a practical matter, almost all valuation specialists utilize the first technique which is a traditional discounted cash flow analysis. CON 7 and SFAS No. 141 recognize that the second technique would require much greater cost and effort to develop all the possible scenarios of future cash flows that may be used by market participants. As such, valuation specialists use the entity’s own expected cash flows as the basis for the discounted cash flow analysis. The cash flows, of course, should reflect assumptions from the perspective of a market participant.

USEFUL LIFE OF AN ASSET

A fundamental consideration in estimating the fair value of an asset is the asset’s remaining useful life. SFAS No. 142 defined useful life as, “the period over which an asset is expected to contribute directly or indirectly to future cash flows.” The value of an individual asset is tied directly to its useful life. The longer the life and thus the more cash flow that the asset is expected to generate, the more value that asset has to a particular business entity.¹³

In estimating fair value, a valuation specialist must distinguish between intangible assets whose useful lives could be reasonably estimated (i.e., “finite”-lived assets) and intangible assets whose useful lives are indeterminate (i.e., “indefinite”-lived assets). The FASB requires a reporting entity to amortize “finite”-lived assets over their remaining useful lives. In contrast, the FASB does not permit a reporting entity to amortize “indefinite”-lived intangible assets. Such assets, however, should be tested annually for impairment.¹⁴

¹³ SFAS 142, Appendix F, page 106.

¹⁴ Beaton, Neil and Mark Zyla, *Valuing Goodwill and Intangible Assets* (New York: AICPA, 2005), 10-12.

SFAS No. 142 describes the estimation of useful life as, “the accounting for recognized intangible asset based on its useful life to the reporting entity. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity.”¹⁵

SFAS No. 142 describes factors that should be considered in the estimation of the useful life of an intangible asset for financial reporting purposes:

- Expected use of the asset
- Expected use of similar assets
- Legal, regulatory, and contractual provisions that may limit the useful life or enable renewal or extension
- The effects of obsolescence, demand, competition, and other economic factors
- Required future maintenance expenditures¹⁶

In addition to estimating the fair value of intangible assets acquired in a business combination, SFAS No. 142 requires management to estimate the remaining useful life of the asset.¹⁷ Additionally management will sometimes look to other similar companies within their industry for guidance on estimating the remaining useful lives of specific assets, particularly intangible assets.

There are many different factors that affect the remaining useful lives of intangible assets. Testing management’s estimate of remaining useful life requires consideration of several factors. Often the remaining useful life of an asset is the shortest life using the factors presented below:

- *Legal life* – The asset has some legal protection such as a patent, trademark or copyright
- *Contractual life* – The contractual life is the contractual term involving the intangible asset, such as a lease, customer agreement or supplier agreement. Analysis of the life should include common renewal periods for the same or very similar terms

¹⁵ SFAS 142, paragraph 11.

¹⁶ Ibid.

¹⁷ Ibid, paragraphs 12-14.

- *Functionality and technological issues* – An asset’s life may be limited by expected changes in technology. For example, the life of software that is continuously updated is defined by functionality and technological issues
- *Economic life* – Economic life is the period during which the intangible asset generates positive cash flow
- *Analytical (actual turnover)* – The analytical factor is based on a statistical analysis of turnover trends. This analysis can be performed on such intangible assets as customer lists¹⁸

The valuation specialist may use the remaining useful life in estimating the fair value of specific intangible assets under certain valuation methods. The remaining useful life can also be used to estimate the period to amortize the intangible asset.

WORKING WITH A VALUATION SPECIALIST

Fair value measurements have changed the dynamic in the relationship between an entity’s management, a valuation specialist and the entity’s outside auditor. *The Practicing CPA*, describes these changes as follows:

The changes brought by these new standards have affected the relationships between company’s management, the company’s auditors, and outside valuation specialists. Even with an outside valuation specialist, management is still responsible for the fair value measurements in its financial statements. These responsibilities even extend to the data used in the valuation, the assumptions used by the specialist, and the valuation methods used to determine fair value.

Previously auditors relied on the work product of the valuation specialist based upon the specialist’s qualifications and experience. While these are obviously still important, auditors and valuation specialists are now held to a higher standard to test the reasonableness of management’s assumptions behind the valuation. One such test is to perform sensitivity analysis on management’s assumptions that underlie the valuation. Additionally, auditors should understand the methods and assumptions used by valuation specialists and not just rely upon their conclusions.

Auditing fair value measurements requires a new level of cooperation between auditors, management, and valuation specialists. Although a

¹⁸ Beaton and Zyla, “Valuing Goodwill and Intangible Assets,” AICPA 10-3 and 10-4. 2006.

valuation specialist is retained by management, the auditor should be comfortable with the valuation specialist selected before the engagement begins. The auditor should carefully review the specialist's résumé and statement of qualifications. The valuation specialist should have experience not just with valuation issues in general, but also with valuations specifically related to financial reporting. The auditor should make sure the valuation specialist fully understands the concept of fair value under GAAP and has experience with these types of engagements. The valuation specialist should provide comfort to the auditor about the methods and assumptions during the course of the engagement rather than at the end of it.¹⁹

Engaging a Specialist

The auditor should consider whether to engage a specialist and use the work of that specialist as evidential matter in performing substantive tests to evaluate material financial statement assertions. Even though the auditor may have the necessary skill and knowledge to plan and perform audit procedures related to fair values, he or she may decide to use the work of a specialist.

When planning to use the work of a specialist in auditing fair value measurements, the auditor considers whether the specialist's understanding of the definition of fair value and the method that the specialist will use to determine fair value are consistent with those of management and with GAAP. For example, the method used by a specialist for estimating the fair value of real estate or a complex derivative may not be consistent with the measurement principles specified in GAAP. Accordingly, the auditor must consider such matters, often through discussions with the specialist or by reading the report of the specialist.

It is important to note that, while the reasonableness of assumptions and the appropriateness of the methods used and their application are the responsibility of the specialist, the auditor obtains an understanding of the assumptions and methods used. However, if the auditor believes the findings are unreasonable, he or she is required to apply additional procedures.

Recent guidance has been forthcoming from the Auditing Standards Board (ASB) concerning when to engage a specialist. Two documents illustrate the ASB's Specialists Task Force recommendations for a standard that will replace SAS No. 73, Using the Work of a Specialist:

¹⁹ Zyla, Mark L., "Auditing Fair Value Measures" *The Practicing CPA Online*, October 2003, www.aicpa.org.

1. Illustrative SAS No. XX, *Using the Work of Management's Nonemployee Specialist*
2. Illustrative SAS No. XX, *Using an Outside Specialist to Assist in the Audit*

When to Hire a Specialist²⁰

The auditor should engage an outside specialist to assist in an audit whenever the auditor believes they lack the specialized skill or knowledge required in the audit engagement to:

- Gather and analyze the information the auditor needs to identify risks of material misstatement at the financial statement level or at the relevant assertion level
- Design and perform tests of controls in specialized areas
- Design and perform further audit procedures responsive to an assessed risk, including evaluating the competence, objectivity, and work of management's specialist

The illustrative statement continues to provide guidance in specific instances. For example, when the outside specialist is not functioning as a member of the engagement team, the auditor must assess the competence and objectivity of the specialist.

Competence

The auditor should evaluate the outside specialist's competence to determine that the outside specialist possesses the necessary skill or knowledge. In evaluating the outside specialist's competence, the auditor should consider the following:

- The education and, as appropriate, professional certification, license, or other recognition of the competence of the outside specialist in his or her field
- The reputation and standing of the outside specialist in the views of peers and others familiar with the outside specialist's competence or performance
- The outside specialist's knowledge and understanding of the accounting concepts or requirements applicable to the subject matter of the outside specialist's engagement and, where applicable, the relevant laws and regulations

²⁰ Illustrative Statement on Auditing Standards, *Using an Outside Specialist to Assist in the Audit*.

- The outside specialist's experience in the type of assignment
- The outside specialist's level of knowledge and experience in the entity's industry

The nature, timing, and extent of procedures that the auditor performs in connection with the above considerations are a matter of professional judgment.

Objectivity

An outside specialist engaged by the auditor to assist in an audit must be impartial, intellectually honest and free of any conflicts of interest which could impair his or her objectivity. The auditor should evaluate the outside specialist's objectivity with respect to the entity. In evaluating the outside specialist's objectivity, the auditor should consider the effect on objectivity that the following relationships between the outside specialist and the entity may cause:

- Close family relationships
- Financial interest or ownership
- Current or previous contractual or other business relationships that could be viewed as impairing the outside specialist's objectivity

Conclusion

Due to the complexities often involved in measuring fair value, management of a business entity often retains an outside valuation specialist to assist in estimating the fair value of various assets and liabilities. As such, management of a business entity and its auditor should understand the concept of fair value from the perspective of a valuation specialist and how it is measured.

Attached to this paper are two checklists from the AICPA's valuation toolkit (which is currently being updated and is not available on the AICPA's website). The first checklist is a document request. This is the type of documentation that the valuation specialist would request when working on a fair value engagement. The second document is a review checklist. This would be used by the specialist as well as the auditor and management to see that the various steps in the process are being carried forward.

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Linda teaches business valuation courses throughout the country for The Institute of Business Appraisers, the AICPA, various state societies of CPAs, and the American Society of Appraisers. She also lectures nationwide. She has served as faculty for the National Judicial College. Linda is co-author of the first and second editions of *Financial Valuation Applications and Models*, published by Wiley Finance and has authored several self-study courses.

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