Abstract: Dividing a marital estate is rarely easy. But it's made much harder if a divorcing spouse owns a private business and attempts to deflate profits or hide assets. Divorcing spouses — or their attorneys — who suspect this type of deception should engage a forensic accountant to investigate.

Business owners, divorce and the potential for fraud

It's difficult enough to divide a marital estate. But when a divorcing spouse owns a private business and attempts to artificially deflate its profits or hide assets, it may be time to engage a forensic accountant to investigate.

What to ask

When working on divorce cases, fraud experts ask several questions about private business interests. For example, does a spouse own a cash business that may have income that's not reported to tax authorities? Does the owner receive special perks or tax write-offs that affect the business's profitability? Are numbers manipulated to affect the business's value?

Also, does the business have subsidiaries or is it part of other business ventures? A business owner may be a silent partner in an entity where ownership isn't obvious.

Look to the income statements for clues

Anomalies in a business's income statements may reveal possible deception, particularly:

- Excessive write-offs,
- Withheld revenue deposits,
- A large one-time expense, or
- A decrease in revenue with no related decrease in variable expenses.

Sudden changes that occur when the possibility of divorce arises may suggest unreported income or overstated expenses. However, these changes could also be due to external forces such as adverse market conditions.

When experts evaluate expenses, they may focus on amounts paid to owners and other related parties. These may include payments for compensation, benefits, rent, management fees, company vehicles and more. The owner-spouse also might try to flush personal expenses through the business.

Details in the balance sheet

Balance sheets may reveal whether an owner seeks to hide assets (for example, in an offshore account) or transfer them to a related party for less than market value. Inventory is particularly susceptible to manipulation and notes payable to shareholders — though often legitimate — may conceal income distributed to an owner.

Experts review the equity section for changes in the business's ownership after the divorce filing and suspicious withdrawals or distributions from capital accounts. Controlling owners sometimes attempt to transfer ownership of business interests to friends or associates to deprive their spouses of the assets or portions of the business income.

Value distortions

Although divorce can give rise to angry actions, most business owners would never stoop to falsifying financial records simply to deprive their ex-spouses of a fair division of marital assets. But if the value of a business seems distorted, contact us to help identify the causes and to suggest reasonable adjustments.