



## **How To Deal With A Cash Business in a Divorce**

If you are contemplating or getting divorced and your spouse owns a business which receives a large amount of income in cash you must be prepared with unreported income or cash being taken out of the business. Typically, when going through a divorce, the business owner-spouse is less than cooperative in providing documentation or other information regarding cash revenues. The first step in this process is retaining a business evaluation expert who is experienced in handling these types of cases and is willing to commit the time and effort to trace the cash revenues. Before you go down this road, make sure that you have done a cost benefit analysis and have a realistic assessment as to whether the money you spend with this expert will be worthwhile versus spending thousands of dollars with no realistic benefit.

At the outset, make sure you can provide as much assistance as possible, including documentation as to income sources and standard of living. For instance, if your spouse's reported income is only \$50,000.00, yet cost of running your household is \$200,000.00, this is a red flag as to unreported income.

Aside from reviewing the business's financial records, your business evaluation expert will need to conduct an onsite inspection to get a true feel for the business's operations, including key personnel of the business to assess how the business operates. The expert may conduct several random inspections and interview employees at different times to get a good "flavor" of the business's operations and cash flow. The specific type of business will dictate the cost, the extent of investigation and analysis when conducting your initial assessment on cost benefit analysis. A bar is a well-known cash business. This is a prime example where the actual income is significantly greater than reported income.

Your expert should have access to various studies to correlate the business's income and reported expenses in terms of percentage of sales. The studies correlate such a percentage and give your expert good ideas whether or not the income and expenses as reported are accurate. In a bar business, your expert may be able to calculate the pour cost based upon the liquor purchases and the average number of drinks per bottle. This, combined with the review of cash register receipts, give your expert a better handle on reported versus actual income. Undertaking such an evaluation can be quite time consuming and it is very important from the outset that you get a good handle on the benefits versus costs.

In conclusion, before you embark on such a process, make sure you personally meet such an expert along with your attorney. We have many business valuation experts we have worked extensively with in the past and should you be contemplating divorce, I encourage you to contact us for a free initial consultation.