



AICPA
Valuation Services
VS Section
Statements on Standards for Valuation Services
VS Section 100
Valuation of a Business, Business Ownership Interest,
Security, or Intangible Asset
Calculation Engagements
Frequently Asked Questions (FAQs)
Non-Authoritative

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INTRODUCTION

Requirements for and Differences between a Valuation Engagement and a Calculation Engagement

Guidance and Definitions per SSVS VS Section 100 (“SSVS,” “VS Section 100,” or “Standards”), Paragraphs .02, .04, and .21:

.02 As described in this statement, the term **engagement to estimate value** refers to an engagement or any part of an engagement (for example, a tax, litigation, or acquisition-related engagement) that involves estimating the value of a subject interest. An engagement to estimate value culminates in the expression of either a **conclusion of value** or a **calculated value** (see paragraph .21). A member who performs an engagement to estimate value is referred to, in this statement, as a **valuation analyst**.

.04 In the process of estimating value as part of an engagement, the valuation analyst applies **valuation approaches** and **valuation methods**, as described in this statement, and uses professional judgment. The use of professional judgment is an essential component of estimating value.

Types of Engagements

.21 There are two types of engagements to estimate value— a **valuation engagement** and a **calculation engagement**. The valuation engagement requires more procedures than does the calculation engagement. The valuation engagement results in a conclusion of value. The calculation engagement results in a calculated value. The type of engagement is established in the understanding with the client (see paragraphs .16 and .17):

- a. *Valuation engagement.* A valuation analyst performs a valuation engagement when (1) the engagement calls for the valuation analyst to estimate the value of the subject interest and (2) the valuation analyst estimates the value (as outlined in paragraphs .23 - .45) and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation as a conclusion of value; the conclusion may be either a single amount or a range.

- b. *Calculation engagement.* A valuation analyst performs a calculation engagement when (1) the valuation analyst and the client agree on the valuation approaches and methods the valuation analyst will perform in the process of calculating the value of a subject interest (these procedures will be more limited than those for a valuation engagement) and (2) the valuation analyst calculates the value in compliance with the agreement. The valuation analyst expresses the results of these procedures as a calculated value. The calculated value is expressed as a range or as a single amount. A calculation engagement does not include all of the procedures required for a valuation engagement (see paragraph .46).

Whenever a valuation analyst takes on an engagement to estimate value, whether the engagement is for a conclusion of value or a calculated value, he or she is bound by the Standards. It is not possible to prepare this work under just the consulting standards.

FAQs

General Differences and Requirements

1. **Q: What needs to be done to perform a calculation engagement?**

A: See paragraphs .21(b) and .46 of the Standards.

2. **Q: What is the difference between a calculated value and a conclusion of value?**

A: See paragraphs .21(a) and .21(b) of the Standards.

Standard of Value

3. **Q: Can a specific standard of value be used and referred to in a calculation engagement and report?**

A: A valuation analyst can perform a calculation engagement and prepare a calculation report under any standard of value. This may include standards of value such as fair market value, investment value, fair value (financial reporting), fair value (states' rights),

and intrinsic value. The Standards do not prohibit or endorse calculations under any specific standard of value. It is up to each valuation analyst to decide whether a calculation engagement and report are appropriate under the particular standard of value and the facts and circumstances of the calculation engagement.

Purpose of the Calculation Engagement

4. Q: When can a valuation analyst use calculation engagements and reports?

A: A valuation analyst can perform a calculation engagement and prepare a calculation report for any purpose of valuation. The Standards do not prohibit or endorse calculations under any specific purpose of valuation. It is up to each valuation analyst to decide whether a calculation engagement and report are appropriate for a particular purpose of valuation and for the specific facts and circumstances of the calculation engagement.

5. Q: Is a calculated value acceptable to the IRS?

A: A calculation may, in some circumstances, be acceptable but generally the IRS and especially the tax court demand a full valuation (valuation engagement) culminating in a conclusion of value. Also, consideration should be given to the IRS adequate disclosure rules (Reg. section 301.650).

6. Q: Can a calculation engagement and report be performed in conformity with Revenue Ruling 59-60?

A: There is no prohibition or endorsement in the Standards concerning compliance with Revenue Ruling 59-60. If the valuation analyst decides to perform a calculation engagement in compliance with Revenue Ruling 59-60, he or she must consider the many approaches, methods, and factors presented within this revenue ruling. Revenue Ruling 59-60 does not contain any reporting requirements.

7. Q: Can a calculation engagement and report be used for estate or gift tax purposes?

A: The Standards do not prohibit or endorse calculations under any specific purpose of valuation. It is up to the valuation analyst to decide if a calculation engagement fulfills the requirements for a valuation prepared for estate and gift tax purposes. The valuation analyst must be a qualified appraiser and the report must be a qualified appraisal, as defined by the Internal Revenue Service ('IRS'). Additionally, the appraisal must determine the fair market value of the property being valued as defined in the IRS regulations. In addition, consideration should be given to the IRS adequate disclosure rules (Reg. Section 301.650).

8. Q: Can a CPA perform a calculation engagement as a neutral party in a dispute setting?

A: The Standards do not prohibit or endorse calculations under any specific purpose of valuation. It is up to the valuation analyst to decide if a calculation engagement fulfills the requirements for being a neutral expert. Consultation with the clients and the clients' attorneys is encouraged.

9. Q: Can a calculation engagement be performed for ESOP purposes?

A: Whether a calculation engagement can be used for an ESOP must be decided by the Trustee(s) of each particular ESOP. The Department of Labor (DOL) does not have a regulation requiring a full valuation (valuation engagement). However, there are indications that a valuation engagement is preferred by the DOL.

10. Q: If a valuation analyst reviews another expert's analysis and report and provides a calculated value based on that review, is the valuation analyst subject to the Standards?

A: The Standards do not cover qualitative reviews of another expert's analysis and report. However, if the valuation analyst reviews the work of another expert and uses that work to come up with his or her own calculated value, the Standards do apply. As stated in VS Section 100, paragraph .04, "In the process of estimating value as part of an

engagement, the valuation analyst applies **valuation approaches** and **valuation methods**, as described in this statement, and uses professional judgment.” The key here is that the valuation analyst applies valuation approaches and valuation methods and uses professional judgment. This applies to both valuation engagements (conclusion of value) and calculation engagements (calculated value).

11. Q: Can a calculation engagement and calculation report be used for a buy-sell agreement requirement to calculate the value of a business annually?

A: Nowhere in the Standards does it state that a valuation analyst cannot perform a calculation for any specific purpose. It is up to the valuation analyst to decide if a calculation engagement is appropriate for the purpose of a buy-sell agreement. This is a judgment the valuation analyst must make. The valuation analyst may want to consult with the client and the client’s attorney.

Some buy-sell agreements require that a valuation analyst apply a certain valuation method and then use professional judgment in applying that method. This could be a calculation engagement.

Also, a buy-sell agreement may only require a “mechanical computation.” For example, a valuation analyst may be asked to apply a valuation multiple to a specific earnings parameter from the income statement of a business. VS Section 100.09 discusses an exemption for mechanical calculations that might apply in this kind of a situation: “This statement is not applicable to mechanical computations that do not rise to the level of an engagement to estimate value; that is, when the valuation analyst does not apply valuation approaches and methods and does not use professional judgment. See Interpretation No. 1, illustration 8 (VS sec. 9100 par. .20–.23).”

12. Q: If a valuation analyst is asked to give a client an indication of value based on a rule of thumb, is this a calculation engagement or a mechanical computation under the Standards?

A: If the valuation analyst applies an approach, method, or procedure agreed upon with the client and uses professional judgment, he or she is performing a calculation engagement under the Standards. However, if the valuation analyst is asked to look up a

rule of thumb from a publication and apply it to a client's earnings, that is not a calculation engagement. It is a mechanical calculation with no professional judgment involved.

Calculated Value and Opinions of Value

13. Q: Can a valuation analyst provide an opinion of value in a calculation engagement?

A: There is no prohibition or endorsement in the Standards on the use of an opinion of a calculated value or, for that matter, an opinion of a conclusion of value that is part of the more detailed valuation engagement.

The reason that the Standards do not mention the word "opinion" is because an opinion has a special meaning from an attest perspective; it has a special meaning from a litigation/legal perspective; and it can also have a different meaning under a non-litigation, non-attest service-type of definition.

It is up to each valuation analyst to decide whether a calculated value in a calculation engagement can be offered as an opinion of calculated value for a particular purpose of valuation and with regard to the specific facts and circumstances of the calculation engagement. Note that the wording of the opinion would be "an opinion of calculated value," as a calculation engagement is not a "conclusion of value" and cannot be referred to as such. That wording is reserved for a valuation engagement only.

Calculation Engagements and Dispute/Litigation Engagements

14. Q: Does the litigation exception from the reporting portion of the Standards apply to the development portion of the Standards?

A: No. Paragraph .50 is very clear that the development portion of the Standards still applies.

15. Q: Is a calculation report acceptable in court?

A: There may be circumstances in which a calculation report might be acceptable. For example, both valuation analysts (plaintiff and defendant) might each agree to prepare a calculation engagement. However, in many cases, since the calculation and calculation report do not include all the procedures necessary to reach a conclusion of value, it is a less detailed analysis and report than a valuation engagement (summary or detailed report) with a conclusion of value. Thus, the calculation and calculation report is a less rigorous analysis and could be subject to additional scrutiny. Note that it is up to the court to determine whether a calculation engagement is sufficient for the matter before the court.

16. Q: Can a valuation analyst provide an opinion of a calculated value in a litigation setting where the valuation analyst is an expert witness?

A: There is no prohibition or endorsement in the Standards on the use of an opinion of a calculated value or, for that matter, an opinion of a conclusion of value that is part of the more detailed valuation engagement. It is up to each valuation analyst to decide whether a calculated value in a calculation engagement can be offered as an opinion of calculated value for a particular purpose of valuation and with regard to the specific facts and circumstances of the calculation engagement.

From a practical perspective, the valuation analyst must decide whether he or she believes the “opinion” of a calculated value meets the requirements of the legal venue in which the valuation analyst is to testify. For example, under the Federal Rules of Evidence for Testimony by Expert Witnesses (Rule 702), the testimony needs to be based on sufficient facts or data, it must be reliable, and it must be reliably applied (often referred to in a litigation setting as “with reasonable certainty”). Sufficiency and reliability are major factors.

A valuation analyst must weigh the above factors with the discussion in VS Section 100.21 .b:

A valuation analyst performs a calculation engagement when (1) **the valuation analyst and the client agree on the valuation approaches and methods the valuation analyst will use and the extent of procedures the valuation analyst will perform** in the process of calculating the value of a subject interest (these procedures will be more limited than those of a valuation engagement) and (2) the valuation analyst calculates the value in compliance with the agreement. The valuation analyst expresses the results of these procedures as a calculated value. The calculated value is expressed as a range or as a single amount. **A calculation engagement does not include all of the procedures required for a valuation engagement** (see paragraph .46). [emphasis added]

Once again, it is up to the court to determine whether an opinion of a calculated value is sufficient for the matter before the court.

In closing this discussion, it is worth noting that Paragraph .76 g. requires the calculation report to state “a calculation engagement does not include all of the procedures required for a valuation engagement,” and “had a valuation engagement been performed, the results may have been different.” Therefore, the court will be informed that, had the analyst been allowed to exercise complete professional judgment in the selection of procedures (rather than adhere to restrictions agreed upon with the client) a different estimated value could be before it. Further, counsel for the opposing party might feel it is incumbent upon them to inquire as to what procedures would the analyst have applied, if allowed, and the potential effects on estimated value. Consultation with the client’s attorney about the scope of a calculation engagement and its related report contents is encouraged.

17. Q: Can a calculation engagement and calculation report be used for preliminary purposes in a litigation setting with the caveat that the valuation analyst reserves the right to prepare a valuation engagement and a summary or detailed report should the case proceed to trial?

A: Yes. This is a good example of the usefulness of a calculation engagement and/or report.

18. Q: Can a valuation analyst use a calculation engagement and report in a rebuttal in litigation? For example, an expert could be engaged in litigation to assume that the other side's model is correct, but there may be different data inputs.

A: Yes. A valuation analyst can use a calculation engagement for a rebuttal of another expert's analysis and/or report. See Question 16 for further explanation.

19. Q: If you believe that a calculated value is not an opinion of calculated value, does performing a calculation engagement in a divorce engagement result in a violation of the Standards?

A: No, it is not a violation of the Standards. It is the analyst's decision whether to use a calculation in a divorce setting. It is also the analyst's decision whether to use an opinion of a calculated value. Consultation with the client and the client's attorney is encouraged.

20. Q: If a valuation analyst performs a calculation engagement in a litigation setting, does the valuation analyst have to also provide a calculation report?

A: No. In certain controversy proceedings (such as proceedings before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding) the valuation analyst has a reporting exemption under VS Section 100.50. So, the valuation analyst does not have to prepare a calculation report if he or she is performing a calculation engagement in a litigation setting.

21. Q: Even though there is a reporting exemption, can a valuation analyst elect to prepare a calculation report for litigation purposes?

A: Yes. VS Section 100.50 contains a reporting exemption for controversy proceedings (the development standards must still be complied with). As such, a valuation analyst has three options when it comes to a calculation report:

1. Do not issue a calculation report

2. Issue a calculation report in conformity with VS Section 100 .73-.77
3. Issue a different type of report that is not in conformity with the reporting standards

22. Q: Does a calculation report prepared for litigation purposes have to include assumptions and limiting conditions and a representation?

A: If the valuation analyst prepares a calculation report in conformity with the reporting standards, the calculation report **must** have assumptions and limiting conditions and a representation. But remember that paragraph 50 of the Standards provides an exemption from the reporting portion of the standards for cases in certain controversy proceedings. Thus, in a litigation setting, if there is no report there would logically be no assumptions and limiting conditions.

23. Q: How does a valuation analyst comply with the Standards if the client only wants to see the exhibits and schedules contained in a calculation engagement? This can take place for divorce settlement purposes where attorneys ask that you provide schedules with estimated values.

A: The valuation analyst can use the reporting exemption for controversy proceedings and send the client any work product requested, including exhibits and schedules. It is also possible to give an oral report, but the contents of the oral report given to the client should be documented in the work paper file.

24. Q: Some litigation is settled via a calculation without a trial. However, assume that litigation ensues and winds up in court after the initial calculation of value. Should the related engagement letter also have language that a full valuation engagement will be prepared when a trial is imminent?

A: Yes. This is a good use of a calculation engagement. However, it is not required by the Standards. At trial, a conclusion of value is a much stronger position than a calculated value.

25. Q: Can you perform a calculation engagement for the purpose of fair value in a state's rights action?

A: See the responses in the litigation section above. The answers would be the same since a state's rights action is a litigation matter.

Calculation Engagements and the Understanding with the Client

26. Q: How does a valuation analyst approach a calculation report where the client has no understanding of valuation approaches, methods, and procedures? Are you not basically explaining to the client what the best method is and what the procedures will be and telling the client that he or she has to agree?

A: The answer is yes. If the client doesn't understand the components of a calculation engagement, the valuation analyst should explain it to them, including the differences between a calculation engagement and a valuation engagement. See VS Section 100 .16-.17, "Establishing an Understanding with the Client."

27. Q: Can a valuation analyst be the one to suggest the approaches and methods to be used and the extent of the procedures to be used?

A: Yes, the valuation analyst can make these recommendations as long as the client agrees, preferably in writing.

28. Q: Can procedures agreed upon with the client be put into the engagement letter for a calculation, and will that suffice as the understanding with the client?

A: Yes. The engagement letter is the best place to include the approaches, methodologies, and procedures to be performed by the valuation analyst in a calculation engagement. However, the Standards do not require that an engagement letter be the sole method for documenting the valuation analyst's understanding with the client.

29. Q: Can representation letters be used to reinforce the agreement with the client regarding methods to be used in the calculation engagement?

A: A valuation analyst must make the decision about how to document the understanding with the client. An engagement letter and/or a representation letter are two good choices. Also, if the valuation analyst and the client agree to add or delete something that was in the original engagement letter, the valuation analyst should modify the understanding with the client if he or she encounters circumstances during the engagement that make it appropriate to modify that understanding.

Miscellaneous

30. Q: Does a calculation engagement allow for the valuation analyst to develop a cost of capital using a method such as the build-up method in a capitalization of cash flow method?

A: Yes, as long as the valuation analyst and the client agree to this valuation method and this procedure.

31. Q: Is there any requirement in the Standards about the length of a calculation report?

A: No. As long as a valuation analyst meets the requirements as to what must be in the report, there is no restriction on the length. There are no restrictions on the format either.

32. Q: Can the valuation analyst present an oral report for a calculation report?

A: Yes.

33. Q: Is there any provision in the Standards that allows a valuation analyst to prepare a calculation without issuing any type of report?

A: No. The entire purpose of the Standards is to make sure that all valuation analysts follow a uniform set of standards when providing business valuation services. Of course,

the exception would be controversy proceedings. A valuation analyst can also present an oral report but should document in writing what was said to the client. See SSVS section .78.

34. Q: What should not go into a calculation report?

A: The Standards only identify items that should be included in a calculation report. There are no prohibitions stated in the Standards about what may not go into a calculation report, but a calculation report should never contain a reference to the estimated value as a conclusion of value. This reference is reserved exclusively for a valuation engagement.

35. Q: Can a valuation analyst provide a client calculation exhibits and schedules as part of an oral calculation report?

A: Yes. Copies of the calculation pages can be provided as long as they are labeled as such and are not labeled as a written report.

36. Q: Why are the terms “estimate of value” and “calculated value” both used in the Standards?

A: All valuation services result in an estimate of value, whether it is a conclusion of value or a calculated value.

37. Q: Does the valuation analyst have to explain the marketability and minority discounts and how they were determined in the body of the calculation report?

A: No. The valuation analyst only needs to include the required reporting items in VS Section 100 .73-.77. Once the requirements for what needs to go into the calculation report are met, additional language is strictly up to the valuation analyst.

38. Q: Can the valuation analyst's "judgment" be applied in a calculation engagement?

A: Yes. The Standards require that a valuation analyst apply valuation approaches, methods, and procedures, and that the valuation analyst also apply professional judgment. Professional judgment is necessary for both a valuation engagement as well as a calculation engagement under the Standards.

39. Q: If the valuation analyst performs a calculation engagement and is later directed to perform a valuation engagement, is there language that protects the valuation analyst if the value changes due to the more comprehensive work? Does the valuation analyst just limit the work to a calculation in an engagement letter?

A: It is good practice to state in the engagement letter that the valuation analyst is performing a calculation engagement for preliminary purposes, e.g., settlement purposes in a litigation matter, and that it is not to be used for testimony or to be transacted upon. The valuation analyst would also state that if testimony is required, the service to be provided would be a valuation engagement.

40. Q: In a calculation report are you required to detail the procedures omitted or limitations imposed for that valuation?

A: No. However, there's no prohibition against disclosing what the valuation analyst did not do.

41. Q: What are the differences in data requested for a calculation engagement versus a valuation engagement?

A: The differences in data requested are in relation to what the valuation analyst believes is necessary to complete the procedures required under either the valuation engagement or the calculation engagement. The differences could be large or they could be small as to what the valuation analyst feels is needed to complete the engagement under the SSVS.

42. Q: If a valuation engagement and detailed report are presented as a calculation and calculation report, does the limitation language on the calculated value still apply, simply by definition?

A: The limitation language always applies in a calculation engagement. If the valuation analyst has performed a valuation engagement and has not omitted anything, he or she cannot claim it is a calculation engagement or call it a calculated value. To have a calculation engagement, the valuation analyst must have prepared something less than a valuation engagement. The Standards do not require disclosure of what the valuation analyst has not done. However, it must be something that normally would have been done in a valuation engagement that has been omitted in a calculation engagement. A calculation engagement also requires agreement between the client and the valuation analyst as to the approaches, methods, and procedures to be applied. Also, a detailed report may never be used for a calculation engagement. That type of report is only available for a valuation engagement.

43. Q: Isn't there a provision in the Standards that permits the use of a "calculation engagement" (instead of a valuation engagement) when there's a limitation on scope imposed by the adverse party?

A: No. However, there is no prohibition either.

44. Q: What exhibits should the valuation analyst include in a calculation report? Is simply stating that he or she did the work enough?

A: The valuation analyst decides what exhibits, if any, are included in a calculation report. To say that he or she did the work is enough. The Standards do not specify what exhibits must be put into a calculation report.

45. Q: Is information provided in an oral calculation report required to be documented anywhere?

A: Paragraph .78 of the Standards states “An oral report should include all information the valuation analyst believes necessary to relate the scope, assumptions, limitations, and the results of the engagement so as to limit any misunderstandings between the analyst and the recipient of the oral report. The member should document in the working papers the substance of the oral report communicated to the client.”

46. Q: Can non-CPAs provide calculations and conclusions of value per VS Section 100?

A: VS Section 100 must be followed by all AICPA members and by all CPAs whose State Board of Accountancy has adopted AICPA Standards as part of its accountancy statutes. Non-CPAs can elect to prepare and report on valuations and calculations using the guidance and wording in VS Section 100. This is particularly important in valuation groups that include both CPAs and non-CPAs.

47. Q: How short or long can a detailed report, a summary report, or a calculation report be?

A: Minimally, as long as it takes to document the information required in the VS100 by paragraphs .51 through .70 for a detailed report in a valuation engagement, or for the information required by paragraph .70 for a summary report for a valuation engagement, or for the information required by paragraphs .73 through .77 for a calculation report for a calculation engagement. There are no requirements on length as long as the required information is included.

48. Q: Can a limited-scope analysis, such as a calculation, be so limited it does not render a credible analysis and a credible estimate of value?

A: A limitation of scope can be so severe as to prevent an analyst from performing a calculation engagement. It might or might not be possible to perform a calculation in such a situation but would depend on the scope limitation.