

Valuation Engagement vs. Calculation Engagement

Since the *Statement on Valuation Standards* was issued by the AICPA in 2007, there have been many questions about when a valuation engagement or a calculation engagement should be used. In general, calculation and valuation engagements involve different scope of work assignments and different reporting requirements (development and reporting standards). It is always important for the appraiser to communicate the results of the engagement in a manner that is not misleading regarding the actual work that was done or the reliance that can be placed on the report. Based on the experience of our firm, Chartwell, in performing valuation work for a variety of purposes, including litigation, compliance, fair value, and corporate planning, the following are outlines when a valuation engagement or calculation engagement is most appropriate.

Valuation Engagement

- Provides an opinion or conclusion by the appraiser.
- Involves the “full” valuation process (i.e. incorporates all methods that will produce credible results).
- Reporting can be done in a detailed or summary report (AICPA), or an appraisal or limited appraisal report (ASA). Both types of reports still require the full valuation process be completed and documented in a work file.
- Best to use when asked to prepare reports for IRS compliance, financial reporting, litigation that will require testimony in Court, and certain types of corporate planning.

Calculation Engagement

- Provides calculated values only. It can be helpful to express value as a range so as not to imply a level of assurance that does not exist.
- Involves a limited scope of work and does not include all the procedures required for an opinion/conclusion of value. Many times the appraiser and client agree on the valuation approaches and methods that will be applied.
- SSVS (AICPA), NACVA/IBA, and ASA allow for calculation engagements.
- Best to use for internal company planning when cost is an issue, for preliminary M&A or transaction analysis, for preliminary use for mediation or negotiations in litigation, and for buy-sell agreements that specify the use of a formula.

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