# Common Errors Found in Valuation Reports

**Income Approach:**

1. Using a pre-tax cash flow in either the single-period capitalization method or the discounted cash flow method, but not adjusting the discount rate to its pre-tax equivalent
2. Using debt-free cash flow (cash flow to the firm), but using only the required return on equity as the discount rate rather than a weighted-average cost of capital
3. Using a long-term growth rate significantly above the projected growth in the economy
4. Debt to equity ratio used to calculate the weighted-average cost of capital is different than the debt to equity ratio resulting from the valuation

**Asset Approach:**

1. Not considering built-in gains tax on the appreciated asset values of a corporation or an S-corporation that is still within its 10-year look back period
2. Not considering or separately valuing the intangible assets owned by the business, such as developed software or patents
3. Assuming the value of the liabilities is equal to their book value without performing additional analysis

**Market Approach:**

1. Applying private company transaction multiples without reviewing the transactions for comparability
2. Using dated transaction data when conditions in the industry have changed significantly from the time the earlier transactions occurred
3. Using transactions occurring after the valuation date
4. Using mixed data that includes both stock and asset transactions
5. Failing to show the transactions and multiples relied upon in the report

**Other:**

1. Using a lack of control discount on the income approach when a non-controlling cash flow stream was used to calculate the value
2. Not reconciling the marketability discount to available studies or quantitative methods
3. Failure to explain why certain valuation methods were chosen or rejected