



Partnership Dissolutions and Disputes: The Effective Use of a Financial Expert

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Partnership disputes in many ways are similar to corporate matters. The litigation often involves a dispute between control and non-control owners. The results of business disputes usually head towards a buy-out of the disputing owner, sale of the company, or liquidation. Litigation of this type requires the use of financial experts who can assist with valuation, accounting, and tax issues.

The differences between corporate and partnership disputes highlight the need for an experienced financial expert. Some of the most significant differences are:

- Partnership agreements are often complex. Almost all partnership agreements are unique as there is no standard format. Reading and understanding the agreement is always the first step.
- It is not uncommon for a partnership to operate without any written partnership or operating agreement. Sorting out what the oral agreement was and what it means is often the most difficult assignment.
- Partnership accounting involves allocation of all income and expenses. Sometimes the allocations are according to ownership percentage but there can also be special allocations. This can cause tremendous confusion, misunderstanding, and complexities.
- Dissolution is never according to a "standard" formula or method. The partnership agreement is usually very specific as to the method, timing, and formula for dissolution. Often, none of the partners are happy with how it all works out since none of them have read the agreement in detail or thought through what the words actually mean.
- In the absence of partnership agreements (written or oral) a statute defines the key terms of partnership operation or dissolution. In practice, there is always some kind of agreement – the parties just disagree on what the agreement was.
- Tax accounting for partnerships is much more complex and can be quite different than financial accounting and reporting prepared for the same entity.

How to Use Your Financial Expert

The effective use of a financial expert in partnership litigation is dictated by the complexities noted above. The expert may be most helpful at the beginning of the litigation. An expert that can assist with discovery issues can be very helpful in matters where the evidence will be technical, complex, and voluminous. Interpretation of the partnership agreement's tax and accounting provisions will drive the process of discovery and may be helpful in understanding whether the proposed litigation should be pursued.

An effective financial expert should have experience reading and understanding partnership agreements, preparing tax and financial accounting for partnerships, and preparing projections of proposed dissolutions under several different scenarios. Valuation of entities, control



interests, and particularly non-control partnership interests are critical in some forms of litigation. To the extent the accounting and valuation expertise can be hired in one expert the client will save fees and increase the efficiency of the case.

Finally an expert with good technical skills is important. But, they must also be able to “tell the story” in simple understandable terms regardless of the complexity of the matter. Many cases are lost on the jury because a competent accountant cannot effectively communicate the work they did or the conclusions and opinions in their work.

About the author:

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