Recast GAAP Financial Statements

Business Owner Action Item: Recast the Company's financial statements.

The purpose of financial recasting is to adjust the Company's financial statements to reflect the "normal" operations of the Company and provide an economic view of the Company as though the Company were operated to maximize profitability.

Typical examples of recasting include:

- Removing inactive family members from the Company's payroll;
- Eliminating expenses incurred by the Company for the business owner's personal or family expenses (e.g., vacations);
- Removing cars, vacation homes, and other assets from the balance sheet that are not required for the ongoing operations of the Company; and
- Reducing salaries for the business owner and active family members that are above fair market value.

Why is This Important? Business owners usually manage the Company's financial statements to minimize taxable income (i.e., minimize income tax liability). Accordingly, financial statement that are not recast will usually have (i) higher expenses, (ii) lower net income, and (iii) will produce a lower valuation.

In My Experience: Recast financial statements usually (i) increase the Company's net income and (ii) increase the Company's valuation.