

Business Records and Claim Valuation

HUNTERS thought this article was so practical we are re-printing it for our Clients.

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According to Wikipedia (an online community-based encyclopedia), a business record is "a recording of business dealings that must be retrievable at a later date so that the business dealings can be accurately reviewed as required". Business records may include invoices, sales journals, receipts, cheque books or bank statements.

There are many reasons why, as a small business owner, you should keep accurate business records. Accurate records will help you keep better control of your business, you will have a better idea of how well your business is doing, and you may be able to improve your chances of obtaining financing. In addition, when it's time to file your income tax return, the information required will be readily available.

There is, however, another important, but not often considered, reason you should keep accurate business records.

In the unfortunate event you are involved in an accident, you need to file a claim for lost earnings or, if your warehouse goes up in flames, you may seek compensation from your insurer. This often involves a more formal process of reviewing information and documentation to assess the claim.

Third parties may be involved in the loss quantification process, including legal representation and valuers, who will require the aforementioned information.

At Soberman LLP, the Claims Valuation and Litigation Support Group provides recommendations regarding amounts payable for damages suffered in connection with litigation or insurance claims. We advise both plaintiffs and defendants, and both insurers and insured persons or businesses.

In the past, we have become involved in a broad range of matters, including personal injury claims for lost earnings, and commercial insurance claims where a lost earnings claim is made to an insurance company.

When we are retained to quantify losses involving a small business owner, we ask to review financial statements. In some cases, we may need to review additional documentation. For example, if we have questions regarding the sales trend, we may ask to review other related records such as invoices or bank statements. If expenses seem to be too high, we may ask to review billing records or receipts.

There is a vast range of additional documents we may need to review for the purpose of quantifying a loss. In a recent case involving a hairdresser, we found that her financial statement was unreliable because she had understated business revenues for income tax purposes. We requested additional information. Based on our analysis of her sales journals and other documents, we were able to develop a more reasonable estimate of her annual income.

While some business records can be created after a transaction occurs, business records should be created at the time of the transaction, as it may be too difficult to estimate the amounts at a later date. In a case involving a taxi driver, we were able to analyze his trip sheets to determine his income level. Without the trip sheets, he may only have been able to estimate how many trips he made, and the average fares he collected.

In addition to simply reviewing the business records, we also consider their evidentiary value. When documents were in existence prior to the loss, there can be no question raised whether they were created for the purpose of the claim. If they were created afterwards, but should have been available sooner (for example, an income tax return which was filed late), reliability may be an issue.

Where accurate business records exist, the business owner will command a higher level of respect and is more likely to achieve a satisfactory result should a claim arise.

Accurate business records will not only save you from headaches during tax season, but will also save many headaches if you forget to look left and right before crossing the road!

In the event of an insurance claim - HUNTERS can help.

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