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# CLAUDIA HISSEM

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## The Business Appraisal Field Is Complicated

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## Business.

How to choose a business appraiser - like everything else in life, the answers to these two questions are more complicated than most people expect. Both sellers and buyers need business appraisals. The principles of selecting a business appraiser, are fairly straight, however forward.

There are many varied reasons for needing to know what a business is worth. - chances are that you already need a business appraisal, or you wouldn't be reading this article. They range from selling to divorce, from tax planning to partnership disputes. And, you probably don't know where to turn. Here are some suggestions to point you in the right direction. Most people - - even bankers, lawyers and accountants - - don't understand the ins and outs of choosing a business appraiser. Hire the Right Type of Appraiser.

People get business appraisers confused with real estate appraisers

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and equipment appraisers. - to appraise a business, you need a business appraiser. They are not the same. There are even sub - disciplines and specialists within these three categories. Each of these major categories of appraisers( business, real estate and equipment) has its own separate discipline. Sometimes, an individual appraiser will wear more than one hat, especially in rural areas. The problem is that almost all businesses have equipment and many also have real estate.

However, when you need a business appraiser, you don' t want to hire a real estate or equipment appraiser by mistake. - so, it can be difficult to determine what type of appraiser is appropriate. To determine the type of appraiser you need, start by asking yourself just what it is that you need to have appraised. There are even times when you need more than one type of appraiser. Is it mostly equipment, or are you, mostly real estate in need of determining your business value above and beyond the equipment and real estate value? You will want to hire the best business appraiser you can afford. Look for a ' Professional Designation' Let' s assume that you decide you need a business appraiser.

There is, confusion in the, however marketplace about what credentials a business appraiser ought to have. - to an outsider, it' s confusing. The key is to look for the appraiser' s' professional designation. ' Business appraisers appear to have widely different backgrounds. Different capabilities result from each appraiser' s unique experience and specialized educational background. The ones you are most likely to see( 1) that require serious study and actual appraisal experience and which are issued from reputable and recognized trade associations include: Initials Which means: Earned from: CBA Certified Business Appraiser Institute of Business Appraisers( IBA) ASA Accredited Senior Appraiser American Society of Appraisers( ASA) CPA/ ABV Certified Public Accountant Accredited in Business Valuation American Institute of Certified Public Accountants( AICPA) CVA Certified Valuation Analyst National Association of Certified Valuation Analysts( NACVA) CBV Chartered Business Valuator Canadian Institute of Chartered Business Valuators( CICBV) ( 1) We have excluded the rarer, most senior fellowship designations( FIBA and FASA) of the IBA and ASA. Most business appraisers will have a' professional designation. ' They will have initials after their names that indicate the designation( s)

they have earned.

The industry gurus have these designations, usually as high honors for a distinguished career spent in business appraisal. - lack of a designation does not, indicate incompetence, by itself. We have also omitted the advanced " Business Valuator Accredited for Litigation( BVAL) " designation being introduced by the IBA this year. A failure to have one of these designations probably means that your would - be appraiser has either just started working in the field or is, not active on, perhaps a full - time basis. If you need a written report or anticipate litigation, you definitely need, though a business appraiser with a professional designation. Particularly if your business is small, an experienced business broker can help you set an asking price without being a business appraiser.

You need to ask more questions of the business appraiser who has never earned a designation. - understand the costs. While none of these designations is easy to earn, a full - time business appraiser of any tenure will most likely have at least one such professional designation. There are several levels of service that business appraisers offer. An oral appraisal for\$ 295 is a bargain! Business appraisal costs can range from\$ 295 to\$ 35, 000 and more!

A written appraisal for\$ 35, 000 is, in most cases, a - ! - discuss your needs with your advisors and with the appraisers you interview. The price you will have to pay is likely to be in between somewhere. Set the minimum level of report that you need. The oral appraisal is much more cost effective than the written report. Ask each appraiser for a cost estimate for that type of minimum effort.

You still get the appraiser' s professional conclusion without making the appraiser write the big report you may not need. - a simple oral appraisal can cost as little as\$ 29there is a business broker( with no appraisal designation) in my state doing oral appraisals for this amount. Most appraisers will then give you credit for the oral appraisal cost against the cost of any written report needed later. It' s the lowest figure I have ever heard of from anybody. Accredited business appraisers will also offer to sell you their time based upon a minimum amount. \$500 is a more typical minimum charge for this

type of service. As far as I know, he is accurate enough for setting the asking price of a small business. Most accredited business appraisers charge at least \$ 100 per hour and will need to spend at least two to four hours doing the minimal homework required for an oral appraisal.

An oral appraisal can take as little as three, or as many as six, hours for the appraiser to complete. - it also takes an hour or two to explain it to the client. A written business appraisal is going to cost between \$ 2, 500 and \$ 5, 000 in most parts of the U. It will typically take an appraiser from 20 to 50 hours of work to complete the appraisal. It will run anywhere from 15 to over 100 pages in length. The highest fee that I know of for a straight - forward report is from a national company that charges \$ 35, 000 for the same thing that most appraisers would do for \$ 2, 500 to \$ 5, 000 So, beware!

The cost can easily increase to well over \$ 10, 000, depending upon the circumstances. - appraisal work can vary so much that you really need to get some estimates for your specific project. Appraisers usually charge a premium hourly rate for litigation preparation and testimony because the time it takes is always lengthy, totally unpredictable and out of their control. \$150 to \$ 250 per hour is a typical appraisal fee for such court battles. If the reason for the appraisal is litigation, the costs can skyrocket when the interrogatories and depositions start. Under these circumstances, the appraisal fees can reach dizzying heights. The public record in the U.

Keep in mind, that whenever you ask an appraiser to put an appraisal in writing or to testify on the record, you require the appraiser to enter a whole new level of preparation. - s. court system is researchable and appraisers' written opinions and testimony on the record must be precise and accurate. The words have to be carefully chosen. The smallest details have to be considered. Mistakes could prove in another case many years later! Insist Upon Independence.

This type of preparation simply takes more time and costs the client more money. - the business appraiser' s opinion about the value of your business must be totally independent to maintain credibility.

Business owners often incorrectly assume that the business appraiser they hire is, like their attorney, a 'hired gun.' If this were so, then the business appraiser's opinion and report would be worthless and without credibility. You need to know this, and to insist upon it, to preserve the value of the appraisal itself. You do not want an appraiser who compromises independence and credibility by becoming your advocate. They 'pumped up' the real estate projections so that the banks they worked for could make larger loans. Many real estate appraisers did this in the late 1980s.

The entire appraisal community was called to task for this practice after the real estate crash of the early 1990s. - every business appraiser with a professional designation subscribes to a code of ethics which requires independence. Both real estate and business appraisers are now more sensitive than ever to this issue. The appraiser must not become the employee, agent or advocate of the client. Before you actually hire a business appraiser, you will be asked to read and sign an appraisal agreement or engagement letter. A professional appraiser is hired only as an independent expert and is to be an advocate only of his/ her own professional opinion. This agreement will clearly describe the independent nature of the appraiser's opinion.

Use Common Sense. - any report you receive will also have this independence clearly described. When selecting your business appraiser, use common sense. Learn about your business appraiser's credentials. Determine what you need appraised and choose the right type of specialist. Don't agree to any fee without checking around. You can become distracted by the details.

The business appraisal field is complicated. - the process of selection, is as simple, however as taking time to interview several candidates and asking about their credentials, experience and costs. You will have to make - do with a phone interview and a review of credentials and/ or references the appraiser might be able to send to you. If all you are trying to book is an oral appraisal, don't expect the appraiser to meet with you personally before a commitment. If you are choosing an appraiser for litigation, a free initial, however consultation is in order and most will accommodate an initial meeting without obligation. Their ability and willingness to listen is

critical. You want a person who adapts to your unique situation.

Their ability to be timely may be important. - you want a person who can speak and write in a way you can understand. You want the proper credentials. The ideal business appraiser is a person who can deliver a reasonably accurate, understandable and clearly independent appraisal to you in a cost - effective and timely manner.

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