CJA PROFESSIONAL SERVICES

ACCOUNTING, TAXATION, BUSINESS VALUATIONS & GENERAL BUSINESS CONSULTING

Books and Records… Common Shortcomings of Financial Information of Small Businesses Up For Sale

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So your client wants to sell their business, the market it hot, their sales are way up this year and they even have some interested purchasers… Looks like this could be another smooth transaction… BUT, there is a small (big) problem. The business's financial records (if you can call them records) are a mess.

Any prudent purchaser is going to want to achieve a certain level of confidence in the financial records of the business before they sign on the dotted line. If, upon commencing their due diligence, they are handed a shoe box full of receipts, you can bet they will be running for the hills.

In my experience, small to mid-sized businesses that are closely held, are profitable and have little to no debt, *sometimes* let their financial records 'slide'. If there is cash in the bank and no requirement to prepare formal financial records, there is less incentive to keep up with the gruelling task of bookkeeping. Back of the envelope seems to suit their needs just fine. When it comes time to sell a business, however, those years of neglect can come to bite your client in the you know what!

The key to your client overcoming this is planning. The decision to sell a business doesn't just happen over night, so there is no reason why your client can't start getting things in order ahead of time. Although there is likely a time/financial investment in getting records up to date, clean, accurate and up-to-date records may help maximize the purchase price (and limit the number of representations that a purchaser requires from your client). So it is in their best interests to make sure things are spick and span!

It's probably a good idea to get an accounting firm in to either perform a review/audit, or at least get them 'sniffing' around to identify any potential problems. Its much better for them to find them so you can address them, instead of the purchaser uncovering them during due diligence.

Specific things to consider, include:

Financial statements:

- Are they up-to-date?
- Are clean, unmarked, final copies available?
- Is there more than one set statements ?

Tax returns (Income Tax, PST, GST):

- Are filings and payments up-to-date?
- Does the financial information on the tax return agree to what is reported on the financial statements?
- Have there been any tax audits in recent years and what was the outcome of the audits?

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Records:

- Are invoices, receipts and statements neatly filed in a logical order that makes them easy to retrieve?
- Are bank reconciliations up-to-date?
- Are there any stale-dated cheques that should be cancelled?

Accounts Receivable / Payable:

- Are accounts receivable current?
- Have uncollected accounts been written off and/or sent to a collection agency?
- Are there any overdue payables?

All of the above items are just some examples of things that will be a cause for concern in the eyes of a purchaser. If your client can address these types of things before the 'For Sale' sign is put up, the chances of a smooth, successful transaction improve significantly. It should be noted though, that rationale thinking sometimes has to come into play here. Purchasers realize that no business has perfect records. So if there is something that is less than perfect and is going to cost an arm and a leg to get it perfect, it may not be worth the hassle.

If you, or one of your clients is thinking about selling their small to mid-sized business, and would like some assistance with identifying and addressing any short-comings in the books and records, Christopher Alexander can be reached at chris@cjaps.ca or 905-334-6774.

About the Author:

Recognized in 2009 as one of the "Top CA's Under 40" in Ontario, Chris is a Chartered Accountant and Chartered Business Valuator with more than nine years of finance and accounting experience working with organizations that have ranged from large publicly listed NYSE and TSX companies to small owner-managed businesses and individuals.

Chris earned his Chartered Accountant designation while working for Deloitte & Touche LLP in Toronto. In 2009, he was recognized by the Institute of Chartered Accountants of Ontario as being one of the "Top CA's Under 40" in Ontario, being a recipient of the ICAO's prestigious Award of Distinction.

Chris earned his Chartered Business Valuator designation while working for a boutique business valuation firm in Toronto. He is recognized by the Canadian Institute of Chartered Accountants as being a specialist in the field of business valuations.

Chris is involved in the training of new CA students as a seminar leader at the ICAO's School of Accountancy. Chris has previously marked the practice and end of school exams for the School of Accountancy.

Chris also teaches part-time at the School of Business and Economics at Wilfrid Laurier University.

Chris is a board member and the Assistant Treasurer of the Oakville Parent-Child Centre, a charitable organization in Oakville focused on supporting, nurturing and empowering families, children and their caregivers.