

BUYING A BUSINESS

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Books and Records.

1. Financial Statements past five years.
2. Sudden substantial business increase few months prior to decision to sell.
3. Gross profit percentage increase.
4. Net profit percentage increase.
5. Corporation.
 - A. Increase profit due to:
 - (1) Elimination of corporate officers salary.
 - (2) Reduction of auto expense.
 - (3) Reduction of travel expense.
 - (4) Reduction of entertainment expense.
 - (5) Analyze each expense on a comparative basis.
6. Sales tax returns.
 - A. Canceled checks.
 - B. Endorsement of same.
7. Income tax returns.
 - A. Corporate returns.
 - B. If proprietorship - Schedule "C".
 - C. Canceled checks and endorsements.
8. Accounts payable, notes payable, loans payable, etc. may give clue as to how desperate seller is to dispose of business.
9. Complete understanding of financial statements is obviously a must.
 - A. You should not attempt to complete transaction unless you thoroughly understand financial statements.
 - B. Have statements been prepared by an accountant.
 - C. Read accountant's letter carefully.
 - (1) Exceptions listed.
 - (2) Compliance with "Normally accepted accounting procedures".
 - (3) Read each note on addendum and question those not clearly explained.

What to purchase.

1. Depreciable assets.
2. Name.
3. Covenant not to compete - consult attorney.
4. Goodwill.
5. Inventory.
 - A. Dollar for dollar.
 - B. Actual cost.
 - C. Present market cost.
 - D. Selection of items.
 - E. Hundred percent purchase.
 - F. Who will inventory products.
 - G. Damaged goods value.
 - H. Determination of disputed items.
 - I. Obsolete items.

6. Accounts Receivable.
 - A. Who shall be responsible for collection of accounts receivable of seller.
 - B. Determination of payments pertaining to buyer receivables and seller receivables.
7. Purchase of accounts receivable.
 - A. Bargaining basis.
 - B. Rule of thumb.
 - (1) 100 percent of current.
 - (2) 70 percent of 30 days.
 - (3) 30 percent of 60 days.
 - (4) Zero on over 60 days.
8. Analyze accounts receivable to determine repeat customers.
9. Mailing list should be submitted without charge.

Lease

1. Lease must be approved by landlord.
 - A. Length of lease.
 - B. Extension of term.
 - C. Continuation on present rental charges.
 - D. Examine lease with care.
 - (1) Probably attorney assistance necessary.
 - (2) Cost of living increase.
 - (3) Property tax increase reimbursement.
 - (4) Cost of overall advertising.
 - (5) Cost of open area repairs.
 - (6) Restrictions of displays and signs.
 - (7) Days and hours required to be open for business.
 - (8), Read fine print.
 - E. Reimbursement to seller of security deposits.
 - F. Will landlord require additional security. deposits.
 - G. Percentage of sales.

Escrow.

1. An absolute necessity.
2. If it is not stated in escrow you do not have it.
3. List each piece of equipment verified by .number if possible.
4. List each piece of office equipment, furniture, mirrors, etc.
5. Restrictive covenant (covenant not to compete).
 - A. Obtain services of an attorney to determine legal ramifications
6. Show clearly purchase price-of each classification of items.
Example:
 - a. Trucks and autos.
 - b. Covenant.
 - c. Goodwill.
 - d. Leasehold improvements.
 - e. Fixtures and furniture.
7. Shall seller be permitted to advertise going out of business sale or auction.
8. Shall seller inform customers of change of ownership.
9. Requiring seller to remain on premises for a period of time after purchase to introduce buyer to customers and suppliers.
 - A. Will buyer be required to compensate seller for such services.
10. Clearing corporation of payroll-1 tax liabilities.
11. Will purchase be subject to your ability to obtain proper licenses.
Example: On sale or off sale liquor license.

ATTORNEY IS ADVISABLE

Settlement.

- A. Place payments into escrow awaiting-final transfer completion.
- B. Shall settlement be all cash or cash and notes.
- C. Possibility of purchase by assuming a portion of accounts payable with prior approval of creditors.
- D. Transfer of accounts payable to notes payable.

Odds and Ends.

- 1. Secure a resale permit from the State Board of Equalization.
- 2. Secure business license and health permits when necessary.
- 3. Police permit may be necessary.
- 4. Adequate alarm system.
- 5. Examine type of advertising.
- 6. Proper displays.
- 7. Determine whether or not seller has sufficient and efficient staff.
- 8. Seller may be overstaffed.
- 9. Why is business being disposed of.
 - A. Illness.
 - B. Death.
 - C. Age.
- 10. Salaries.
- 11. Frequency of salary increases.
- 12. Employee benefits.
 - A. Pension plan.
 - B. Health plan.
 - C. Life insurance.
- 13. Rate of workmen's compensation charges.
- 14. Average length of time employees remain with company.
- 15. Promotion of charge accounts.
- 16. Insurance policies.
 - A. Read with care (Example).
 - (1) Restrictions on overnight merchandise out of state.
 - (2) Number of employees on premises.
- 17. Receive quotes and suggestions from at least two insurance agents.
- 18. Are you prepared to go into business for yourself?**
 - A. How familiar are you with the business?
 - B. How much experience have you had in management? .
 - C. Do you have adequate finances for the purchase?
- D . Will you have adequate finances after purchase?**
 - E. Have you prepared yourself and your family for the hours required to operate the business?
 - F. Is spouse able and willing to assist you?
- 19. Location.

Different situations may require additional or alternative inquiries.

BEWARE OF THE "GOTCHA'S IN BUYING A NEW BUSINESS

- 1. Are you buying assets or stock?
- 2. What's the price?
 - A. Fixed amount.
 - B. Fixed amount plus assumption of liabilities.
 - C. Other.

3. What are you buying?
 - A. Inventory - is it obsolete?
 - B. Raw materials - are they usable?
 - C. Accounts Receivable - are they collectible?
 - D. Equipment - is it in good working order and is it sufficient to operate the business?
 - E. Lease - is it assumable on the same terms?
 - F. Is the name included?
 - G. Franchise rights and other contracts rights.
 - H. Non-competition agreement/goodwill.

4. What liabilities are you assuming?
 - A. Liens on equipment - better do a UCC search.
 - B. Outstanding contracts - are they assumable?
 - C. Contingent liabilities
 - D. Employment agreement.
 - E. Warranty work or refund claims on past sales.

5. Tax Aspects of buying a business.
 - A. Price allocation can substantially effect your write-offs.
 - B. Sales tax clearance from State Board of Equalization.

6. Other compliance areas.
 - A. Bulk sales notice if asset purchase.
 - B. Securities consent if stock purchase.
 - C. Fictitious Business Name Statement.

7. Continuing liability after the purchase.
 - A. Indemnification.
 - B. Personal guarantees - where purchaser is corporation.

8. Do your homework before you buy.
 - A. Review financial statements.
 - B. Talk to customers.
 - C. Talk to suppliers.

D. CAN YOU LIVE WITH THE PURCHASE AGREEMENT?

Revised 12/92 SAS 22 and SAS 36 combined