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"It's a new *BUSINESS* Year"...

For a lot of reasons, it's easy to say that it's good that 2020 is in the past. From what we have seen, some businesses struggled, many folded, and others had incredibly good years.

Now for 2021, what should business owners look forward to? Did we learn anything in 2020 that could help us in 2021 and beyond? There are always things we could not anticipate like the COVID-19 pandemic in 2020. There are always forecasts of general business conditions, unemployment, interest rates, taxes, new regulations, and others. What will affect our businesses?

There are a lot of things to consider as we move forward in 2021. Strategic business planning has always been important, and perhaps will be even more important going forward. Should we be Optimistic? Pessimistic? Cautious? or even Fearful? What should we rely on to make day-to-day decisions? How should we make major decisions? Where do we obtain information that we can rely on as we make decisions? Where do we get information that we can rely on as we make decisions? What we have relied on in the past may not be enough going forward.

Our services are to advise business owners and prospective business owners, as well as to perform Business Valuations. Businesses in 2020 continued to be sold and acquired. The values – yes what happened with COVID-19 2020 has certainly had an impact on values. In some cases, business values declined while in other cases business values did not change or even rose.

Inadequate Recordkeeping/ Accounting Systems/Financial Reports When Selling a Business

In my career as a business broker I've encountered two major surprises: (1) the amount of "under the table" cash that business owners claim to receive is incredible (because I don't believe the high amounts claimed by most of them, and neither will prospective buyers); and (2) the recordkeeping, accounting systems and financial reports of a great majority of small businesses are horrible.

Horrible! It's a strong word, but the point needs to be made. Perhaps, as an accountant by background, I'm more sensitive to the issue. However, you need to know that Inadequate Recordkeeping / Accounting Systems / Financial Reports are huge obstacles that might prevent the sale of a business.

Benefits of good recordkeeping when selling a business

There are other significant benefits to maintaining good recordkeeping, accounting systems and financial reports. Small businesses should use monthly or quarterly financial statements to monitor the progress of the business. The financial statements should provide reliable information that can be used as the basis for making decisions affecting the profitability of the business. Meaningful financial statements are also necessary to obtain lender financing. But they are crucial when trying to sell a business. Nothing will make a prospective buyer run away faster than Inadequate Recordkeeping / Accounting Systems / Financial Reports.

Meaningful financial statements are critical when selling a business

During the due diligence process a buyer will likely request annual financial statements and tax returns for the last 5 years as well as monthly financial statements for the past 3 - 5 years. For a variety of reasons many, if not most, small businesses are not producing meaningful monthly financial statements. Without getting too technical, preparation of accrual-basis financial statements is the only way to produce meaningful data. Many accounting software systems rely on cash transaction reporting and require a few month-end adjustments to balance sheet accounts (i.e., inventory, accounts receivable, accounts payable, loan payments, etc.) to produce necessary monthly financial information.

Buyers were and continue to be plentiful. For individual buyers, three things are needed. Funds, a plan to operate, and perhaps the most important – willingness to take a risk. For strategic buyers and businesses wanting to expand vertically or horizontally, growth by acquisition is often better than growing organically.

Financing for acquisitions was very available in 2020 which helped many deals get done. We don't see that changing in 2021. Lenders that we interact with are continually looking for new opportunities. Underwriting is not all that different than it was before. Lenders are lending money and want to be assured the loans will be repaid. The strength of the business and background and experience of the buyer are considerations, as they should be.

If you would like to have a conversation about the future of your business, please contact us. There is no obligation – but maybe there are options worth considering.

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In most instances, an in-house accountant or controller can accomplish these reports. If your firm is trying to get by with a bookkeeper (as opposed to an accountant), that may suffice generally, but you need to consider retaining your outside accountant/CPA to compile meaningful monthly financial statements from the records provided by your bookkeeper. Even in good situations, prospective buyers of a business face a fair amount of risk.

Almost all buyers and their advisors will walk away from a business they can't get a handle on because of Inadequate Recordkeeping / Accounting Systems / Financial Reports.

From a buyer's standpoint, it's an expensive proposition to fight through financial statements that are incomplete, inconsistent, erroneous or meaningless. It's the rare prospective buyer who is willing to fight that battle. And rest assured, because Inadequate Recordkeeping / Accounting Systems / Financial Reports produce more questions than answers, it will be reflected in the price a buyer is willing to pay.

Inadequate Recordkeeping / Accounting Systems / Financial Reports are major obstacles to a successful business sale.

Are your records adequate? Are you producing meaningful monthly financial statements?

We can help. A simple "no obligation" call and a few moments of your time just may be what you are looking for to sell your business at the highest profit margins available. You have nothing to lose.

NEXT ISSUE

Inadequate Second-Level Management

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