

Buying a Business



YOUR CA AND BUSINESS ADVISORY SERVICES

**The Business Advisory Services Committee
The Canadian Institute of Chartered Accountants**

Every business can benefit significantly by consulting your chartered accountant about business advisory services. CAs are skilled in accounting, auditing and tax services - and a lot more!

CAs can help you with:

- profitability improvement
- financing and loan applications
- obtaining government grants and other financial assistance
- developing management information systems
- cost accounting
- planning and budgeting
- forecasting and evaluation
- risk assessment and insurance planning
- planning compensation programs
- business valuation
- feasibility studies for business expansion
- starting a new business
- acquiring a franchise
- planning for retirement and/or business succession
- integrating business tax planning with estate tax planning.

These business advisory services are cost-effective because CAs have the knowledge of clients' organizations, operations, finances, personnel and tax situations.

Buying a Business?

Selecting the type of business that is suited to you is a decision only you can make. Your CA, however, can assist you in the actual selection of the business that has the potential to provide you with a bright future.

As a purchaser, you must be aware of the factors that can make or break the success of a business.

*Labour.....*Is the business labour intensive? If so, you can expect a high turn-over among your labour force. If so, much of your attention as manager/owner may have to focus on attraction and retention of your labour pool. Often, the success of a business boils down to the productivity and dependability of its staff.

*Production Equipment.....*Is the equipment up-to-date and in good repair? If the answer is no, you may face significant expenses to bring the business up to the standards of your competition.

*And what about competition.....*Before you buy a business, your CA can help you evaluate the environment for your product or service.

*Distribution.....*Does your purchase of the business include access to a developed network system for distribution? Not only will a strong distribution network attract customers, it will also help you access new areas. It is a great deal easier to expand upon an existing system than to build from square one!

*Demographics.....*You must evaluate the suitability of the product throughout the distribution network. Success of a product in one area does not guarantee that same success in another.

Having Found a Business

Once you have found a business which appears to be what you want, your CA can provide you with information on the state of the business that goes beyond “the books.”

Initially, your chartered accountant will analyze any financial information which the vendor has provided to confirm its accuracy. He or she will also review staff compensation packages and existing labour collective agreements, and their effect on the purchase.

The secondary phase of analysis would include an evaluation of the economic environment for the product, and a step-by-step appraisal of all levels of the business from staff and production to distribution and purchase.

Negotiation

During the period of negotiation, your CA can assist you in determining an offering price and a method of financing the venture. Your CA can also inform you of any grants for which the business may be eligible. You should also ask your CA to review the draft of the Purchase Agreement to ensure price is allocated among the assets being purchased in the most tax effective manner.

Managerial Advice

Your CA can provide managerial advice too! He or she can review potential staffing needs and also evaluate the existing managerial structure. You must consider the effect of managerial turnover, and whether senior positions could be filled by employees already with the company. A strong infrastructure can help a business through difficult periods.

Your Business Philosophy

Discuss your thoughts on how a business should be run with your CA. Not only will this exercise clarify your own thoughts, but it will also give your chartered accountant an opportunity to compare your philosophy with that of the existing management.

If your operational philosophy differs greatly from that of management's, you may be in for a rough time. Your CA's objective evaluation may prove invaluable!

Tax Strategy

Once having acquired the business, your CA can develop an advantageous tax strategy for the structuring of the ownership, and assist you in the preparation of a business plan for the initial phase of operations.

Goals

Once you have purchased a business, you will undoubtedly begin to set goals for yourself. Perhaps you will want to expand your customer base or add to your product line. Whatever your goals, your CA, through the business plan, can help you reach them.
