

Benefit From Good Business Records

by Peter C. King, VR Business Sales/Mergers & Acquisitions, CEO President

At least once a month, you should be doing an analysis of your business, and making sure that your books and records are in working order. It's not only good to see the progression of your business, but to verify that both your accounts payable and receivable are in the black. If you are thinking about selling your business somewhere down the line, you should get everything in shape. Additionally, you should have dashboard reports that pinpoint exactly where your revenues are coming from (or not) along with industry analysis reports that show how your business stands up against others that are in the same line of business.

Specifically, you should be paying attention to profit and loss statements (P&Ls) when analyzing your business. You'll be able to account for all the income that your business has earned as well as all incurred expenses.

There are two ways to cast a P&L:

1. For tax purposes, a P&L is slanted to show maximum expenses and minimum profit;
2. To help sell your business for top dollar, the P&L is re-casted to show the actual ongoing business expenses and maximum profit.

Remember, buyers are looking for a business that's making a profit. So when reconstructing the P&L statement, pull out the personal expenses, overstated inventory, non-deductible expenses, owner's personal insurance, salary, promotion expenditures, travel and entertainment, depreciation on equipment, auto expenses, bad debt, donations, interest and income tax. Once you remove these items from the "losses" category, the money gets added to the "profits" category. Now, you should be left with a truer net profit.

Realistically, you should have in order the last three years of P&Ls, especially if you are selling your business. You can prove to the buyer that your business is worth your asking price. Establish a record of steady profitability as well that will help you see not only how your business is progressing but can show a potential buyer that it is a proven money maker. Most buyers are looking for a well-run operation that is efficient. You can show this by having accurate and timely bookkeeping records.

An important aspect to inventory is all your furniture, fixtures, and equipment. In addition, note which items are leased or rented. If you're preparing to sell, you are going to want to make a complete list of everything that is included in the price.

For example, many potential buyers will assume that when they tour an establishment, everything they see is included at no additional cost. Therefore, you want to have a separate list that describes everything that is being rented, leased, or will not automatically be included. There have been instances where the seller didn't include an outside sign on the property that he was leasing for \$350 a month. As a result, the sale ended altogether at the closing table.

It cannot be stressed any further that you need to keep good business records, regardless of if you plan to be in business for several years or sell within the near future to a prospective buyer. Knowing what your value is will only help you in the long run.



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