

## What to Consider Before Purchasing a Business

**B**uying another business is an easy way to expand your own business. But the decision should never be made without a thorough investigation of the business and a look at your own resources.

Each business must be evaluated, and the operation's merits or any liabilities you discover should be taken into consideration before making a purchase decision.

### Establish a Purchase Plan

Before even evaluating a business, it's important to establish a step-by-step process in deciding how to purchase an existing business. Whenever possible, access and examine all existing corporate documents, from the simplest (fictitious name registration) to the more complex (articles of incorporation).

Remember this is very important information and may be written in legalese. When in doubt, hire a lawyer who specializes in the incorporation process to examine all these documents.

### Financial Statements

Before going to an attorney, access and review annual financial statements for the last 3 years and the last 6 consecutive months. Financial statements you should review include balance sheets, and income and cash flow statements.

If you're planning on seeking financing in order to purchase the business, you'll need to furnish these documents to the lender when you apply for a loan. If you have little or no understanding of financial statements, be sure to hire a trusted accountant who can help you through the process. Your accountant may also be able to recommend a good lawyer.



### Accounts Payable and Receivable

Be sure to get a list of all accounts payable and receivable. Your accountant will also need to assess the days payable and days receivable on those accounts. This just means the average amount of time, in days, that it takes to collect accounts and the average number of days it takes to pay the bills. This is something your potential lender will want to see as well.

### Fixed Assets

Get a list of all fixed assets owned by the corporation, including original purchase price, purchase date, method of depreciation and accumulated depreciation to date. Any lender will want to see this information before deciding to finance a loan.

Additional considerations lenders take into account include how long (or short) a time you have been practicing, what is the ask-

ing price for the business, how does the asking price compare to the business's value, and how much of the total cost you need to borrow.

Lenders will also look at your personal credit rating, your demonstrated ability to run your own business, and your business plan.

## Solutions At A Glance...

In summary, this article deals with these issues:

- ☐ Establish a Purchase Plan
- ☐ Financial Statements
- ☐ Accounts Payable and Receivable
- ☐ Fixed Assets