

Buying a Business

The decision to buy a business can be one of the most important judgement calls in your life. Yet a surprising number of people rush into this type of transaction without adequate investigation. Take the time to obtain as much information as possible about the business. Don't be tempted to make a quick bid for the business to avoid missing a "golden" opportunity. Ask yourself if things are as good as they have been presented to you.

Following is a list of questions that should be asked:

- Is the business profitable?
- Why is the business for sale?
- Are competitive pressures increasing?
- What future investments will have to be made?
- Does it earn enough money to pay you a decent wage?
- Are sales increasing or decreasing?
- Do you have the experience to take over this business and maintain it profitably?
- Are you paying too much for this business?
- Are the assets really worth the asking price?
- Is the amount of goodwill (asking price – fair market value of the assets) reasonable?
- Could the business be expanded?
- If the premise is leased, are there provisions for the extension of the contract?
- Are there any new by-laws or zoning regulations that will affect the business?
- Are there any key employees that may not be staying on after you take over?

Following is a list of the documents that you should be provided with:

- Three years most recent financial statements (should be prepared by an accountant)
- Interim financial statements (for the period since the last year end)
- Most recent income tax returns (corporate if an incorporated business, personal if not)
- Any major contracts or agreements
- Organization chart or list of employees
- Descriptions of assets (age, serial #, estimated value)
- Seller's financial projections and budgets
- Any aged receivables or payables

Have your accountant review these documents and if you decide to go ahead with the purchase, have a lawyer draw up the purchase agreement.