ACCOUNTANTS, DUE DILIGENCE AND WHAT YOU SHOULD EXPECT

The process of completing a due diligence analysis for a new business is not an exact science.

When a prospective purchaser of a new business commissions an accountant to carry out a due diligence on a target business, he or she often expects that the accountant will be able to test whether the figures that the vendor has provided are correct or not. In other words, the accountant will be able to confirm for the purchaser exactly how the business has performed for the past 1,2 or 3 years.

We believe the process of due diligence to be far broader than this.

Certainly, the figures have to be verified. At the end of this process, any accountant who claims that he can guarantee the vendor's figures are correct is, we believe, deluding both himself and the client. The best protection that an accountant can provide to his client is to review the figures for any obvious anomalies and get the figures certified by the vendor's accountant that they are in accordance with income tax returns for the vendor. An experienced accountant should be aware or be able to access relevant industry averages for the business in question in regard to return on investment, rental percentage or the market value for the business and should have knowledge of other sales in the industry to compare to the one being contemplated by the client.

Another protection for the client is to ensure that the purchase is through a reputable business broker. The best brokers have the best stock of businesses and will have counselled their client, the vendor, in regard to an appropriate market appraisal.

Apart from verifying trading figures, an experienced broker and accountant form a "signpost" service to a client. Both professionals should be able to direct the client at each step in the process whether this be inspections of the business premises, selecting a solicitor well versed in commercial law to review the contract and lease and finally sourcing finance which will allow the purchase to complete and provide security for the future financial sustainability of the business.

The accountant has a responsibility to visit all business sites being seriously contemplated by their clients and to assist in the preparation of a finance proposal to a bank should the client need assistance with this task. Most importantly, the banks will require that the debt on the business be repaid fully in no longer than a 10 year period or shorter if possible.

The accountant should be able to recommend and setup the correct tax structure through which to make the purchase which, as far as possible protects the personal assets of the client and provides the greatest relief from income tax and capital gains tax in the future. This is not "rocket science" to an experienced accountant but must be carried out to the best advantage of each client, their personal circumstances and should be in place prior to signing of the contract. This will avoid any capital gains issues arising from a change in tax structure after the business has been commenced.

Finally of course, the accountant must ensure that the client is registered for income tax, GST, PAYG, WorkCover, and employer superannuation as is required for a particular business.

The points we have raised above is what we call the due diligence process. It certainly requires a review of the figures for a business but is not restricted to these traditional roles of an accountant. While the solicitor chosen has to be experienced in commercial law, the accountant selected must be able to provide sound advice in regard to the purchase of a business, have a specific knowledge of the industry in question, have an association with appropriate business brokers and solicitors and finally have access to sources of finance to ensure that, all things being equal, the purchase can be completed in a timely fashion to the satisfaction of the client and their family and associates.