



Valuation Starting Point



There are many factors that impact a businesses' value and a variety of approaches that are used to compute that value. An additional complicating factor is that a business is worth different values to different types of buyers, but the **starting point and foundation of valuations are the financial statements of the business.**

Before an owner engages a valuation firm they need to decide if their financial statements accurately represent the results of operations and, if not, the financial statements need to be restated not only for the current year but for at least the past three years. Many transactions have been delayed or derailed due to financial statement inaccuracies or the inability to substantiate account balances. If you are planning to bring your business to market in the next three to five years now is the time to make the necessary changes.

We have developed the following checklist to help determine the veracity of a business' financial statements upon the initial review and to help business owners visualize their financial reporting strengths and weakness.

Checklist

What is the highest level of available financial statements?

- ☐ Audited
- ☐ Reviewed
- ☐ Compiled
- ☐ Assembled
- ☐ Prepared by the business' accounting department
- ☐ Prepared by the business owner

What is the basis of reporting?

- ☐ Full Accrual
- ☐ Modified Cash
- ☐ Cash Basis
- ☐ Income Tax Basis

What is the frequency of presented financial statements?

- ☐ Monthly, Quarterly and Annual
- ☐ Quarterly and Annual
- ☐ Annual

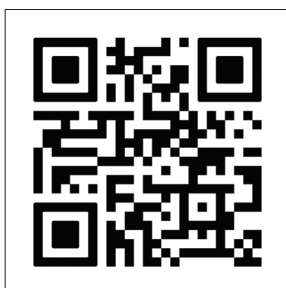
Please note that during the due diligence process a buyer will be able to accurately ascertain the answers to these and many other questions. The financial statements will be adjusted to what can be substantiated by the buyer and may reduce the price the buyer is willing to pay for the business.

Addressing this basic issue on the front end will save time and money and perhaps even the transaction at the back end. A business owner will also benefit from more accurate information and a greater ability to make informed business decisions. When there is a need to build the value of the business to bridge any Value Gap that may exist, accurate financial reporting systems are crucial in measuring the various value drivers of the business.

With accurate financial reporting systems in place, a business owner is Ready to analyze their operations, identify operating inefficiencies and build the business value.

Where should I start?

Use our free estimate of value calculator to discover strengths and weaknesses within your financial reporting.



Scan here to calculate

Checklist (continued)

What statements are included in the financial statements?

- ☐ Balance Sheet, Income Statement, Statement of Changes in Owners' Equity, Statement of Cash Flows and supporting schedules and reference notes.
- ☐ Balance Sheet, Income Statement and Statement of Cash Flows
- ☐ Balance Sheet and Income Statement
Income Statement only

Do the Financial Statements appear reasonable?

- ☐ Are there deficit or contra balances on the Balance Sheet?
- ☐ Do any Balance Sheet or Income Statement balances appear unreasonable?
- ☐ Do the books balance?
- ☐ Does the ending Retained Earnings balance at the end of one year equal the opening Retained Earnings balance for the following year?
- ☐ Are the Fixed Assets reasonable for the industry and reasonable for the level of activity?
- ☐ Do the financial ratios of the business resemble the ratios of the related industry as a whole?
- ☐ Does the level of payroll for officers and employees appear reasonable to the business activity?

Do the Income Tax Returns accurately reflect the financial statements?

- ☐ Yes
- ☐ Yes, but with reconciling schedules supporting the financial statement and tax differences
- ☐ There are material differences that are not easily reconciled.
- ☐ The financial statements are from Mars and the tax returns are from Uranus



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