

# What questions should you ask before buying a business?

Issued by [Starbright IT Solutions](#)

24 Jun 2021

When you're looking to buy a business, there are a number of considerations to make before you commit. Ascertaining any red flags when buying a business can be done by having specific business-related questions answered. These questions revolve around financial, legal, and operational factors, as well as assets. This will help give you insight into the "health" of the business you're looking at making your own.



## What information should I request for when buying a business?

The information provided from the insightful questions you ask should help you determine the potential growth of the business, potential problem areas that will require additional focus, and what you will be taking on as the new owner.

### Financial records

Financial records will reflect the company's financial state, providing written records to indicate overviews of assets, profit margins, sales, and more. Analysing financial statements will give you a clear overview of the company's performance over a prolonged period (usually over 3-5 years).

Alternatively, financial records can be analysed by a professional accountant who can verify the ins and outs of the numbers, and will be able to indicate strengths and weaknesses, and interpret the figures accurately.

## What financials should I look for when buying a business?

**VAT returns** – Accurate figures can be obtained by double-checking the VAT returns or VAT201. For an accurate overview, one should analyse two years' worth of tax returns; though this is not the limit. This will assist in verifying the turnover figures. You can also ask for the management account or even 12-month bank statements.

**Comparing sales and purchase figures** – Business buyers can compare the cost of sales with a business of a similar nature. Businesses in the same industry will generate similar gross profit margins, making this a valuable process to better understand the financial health of the business under scrutiny. Keep in mind that different businesses might have a slight

difference in GP% depending on their suppliers, favourable contracts and other factors. No two businesses are ever the same.

**Operating profit margin** – An operating profit margin will give potential buyers an overview of how successful the business is at controlling expenses and generating revenue. A consistently high operating profit margin will show potential buyers that the business is doing well. However, inflation should be kept in mind in the coming years.

**Assets and liabilities** – These will give buyers an idea of the debt the business has incurred, as well as any major capital expenditure. It will also give buyers an idea of the company's value.

### **Red flags when buying a business**

A professional business broker will be able to ascertain whether the business is a risk or a good purchase. There are certain risk factors to look out for during the analysis period which will tell you whether the business is viable or not.

**Large amounts of debt** – A company's debt can be determined by doing a debt-to-equity ratio analysis. If debt is high, it might be too big of a risk to take over the business unless the previous owners can legally agree to an understanding whereby they pay the full amount, or an amount that the buyer is comfortable taking over.

**The reason the seller is selling out** – It's important to find out what the reasons are for a seller wanting to sell their business. If they have anything to do with falling profits, or they can no longer keep up with the debt incurred, this would be a major red flag to avoid. However, if the reason is to retire ownership for personal reasons such as other business opportunities, immigration, etc., it is worth a look.

**Customer feedback and reviews** – You can tell a lot about how a business is performing by listening to customer feedback and looking through the business' reviews on Google or social media. Here you can assess whether the business is meeting clients' needs and make a decision whether it is worth continuing the product or service under your watch.

This is a very basic outline of factors to look out for when buying a business. It is also important to source your business from a reputable site; this is where Business For Sale comes in. Whether you're looking to buy a business, or to sell one, visit [Business For Sale](https://www.bizcommunity.com) to explore multiple businesses for sale, without the added hassle of sourcing them independently.

For more, visit: <https://www.bizcommunity.com>