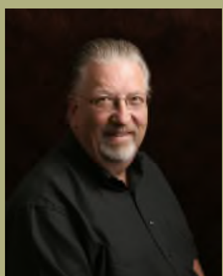
Legacy M&A Advisors LLC

M&A UPDATE®

June 2015 Volume 10, Issue 6



Mike Ertel is a Certified M & A Advisor and a Principal Broker with Legacy M&A Advisors, LLC, a full-service M & A Advisory firm with an office in Tampa, Florida specializing in representing sellers and buyers of small- to mid-sized companies. Prior to joining Legacy M&A Advisors, LLC, Mike's business career spanned 30+ years with Fortune 500 and Fortune 1000 Companies, with senior management roles in Marketing, Operations and Logistics. Mike also served as President, COO of a mid-sized Manufacturing company headquartered in Tampa. Mike also holds a BS in Electrical Engineering and an MS in Industrial Administration, both from Purdue.

The Language of Accounting

Roman A. Basi, MBA/Attorney at Law
The Center for Financial, Legal & Tax Planning, Inc.

Introduction
It is said that accounting is the language of business. Terms like "cost of goods sold", ROI, accrual, expense, depreciation, and capitalization are thrown around in the business world every day. Yet, the average business person does not know what these terms mean. For those dealing with businesses, understanding accounting is essential. Here is a brief introduction to the concepts of Generally Accepted Accounting Principles, types of accounting methods, financial statements, and the point of recognition for revenue and expenses:

Generally Accepted Accounting Principles, also known as GAAP
GAAP refers to a body of accounting methods and procedures used in preparing financial statements. The survival of an accounting principle depends upon its acceptability to the preparers and users of the financial statements. GAAP attempts to provide a consistent system of financial reporting in a general business environment that is always changing. Accounting principles may change over an extended period of time to meet the needs of changing situations.

Accounting principles are not universally and eternally true laws awaiting discovery such as the principles in mathematics and science; however, the debates on how best to present financial information make accounting a dynamic profession. While GAAP is not "law" as we know it, it is the standard in the accounting profession.

Types of Accounting Methods
First, there is **financial accounting** which involves the preparation of financial reports for 'external' users; primarily these would be investors and creditors. The objective of financial accounting is to provide external users with the information necessary to make effective decisions. Obviously, there is a need for a high level of uniformity among financial statements of different companies, since these statements are compared and analyzed by investors when making decisions.

In contrast, **managerial accounting** concerns the preparation of financial reports used by 'internal' users, such as management and the Board of Directors.

Continued on page 2

A CASE STUDY

Valuations Include Everything

The Tax Court upheld a stock valuation in a closely held business. The taxpayer transferred nearly 10,000 shares valued at roughly $220 per share into 20 irrevocable trusts. The IRS disagreed with the valuation and believed it should be about 17% higher than what it was valued at by the taxpayer. Initially, the Tax Court presumed the IRS's valuation was correct. The court decided that the taxpayer's expert undervalued the company because he did not adequately account for the value of a large note.

The taxpayer also used incorrect income measures and did not use all of the company's guideline multiples.

On the other hand, the IRS's valuation was also deficient, because it did not take into account a minority discount and did not have many performance measures or company comparisons. Because the taxpayer failed to meet his burden of proof that the statutory notices received by the IRS were incorrect, the value was found to be between the taxpayer's and the IRS's valuation.

Continued page 3

Advising • Educating • Researching • Publishing
The Center for Financial, Legal & Tax Planning, Inc.

C
o
v
e
r
S
t
o
r
y

The objective of managerial accounting is to provide internal users the means to identify, measure, and analyze financial information in order to plan and to evaluate the business entity for the future.

Financial Statements

The **Balance Sheet** presents the financial position of an organization at the end of a specific date. Its purpose is to help predict amounts, timing, and uncertainty of future cash flows. However, the balance sheet does not represent the current value of many accounts on the financial statement because when it is prepared, assets are stated at their original cost or less, not at their current market value. With the exception of receivables and most investment securities, no current values are shown. In all, a balance sheet is a representation of:

1. Property = Legal Rights
2. Assets = Liabilities + Shareholders Equity
3. Investing = Financing

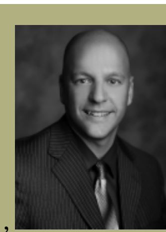
The **Income Statement** presents the results of the operating cycle of a business over a period of time, generally one year. Net income or profit is measured as the difference between revenue and expense.

Revenues measure the inflows of assets from selling goods and providing service to customers. When inventory is sold to customers, the cash received from the customers, or the promise to pay (Accounts Receivable) is classified as a revenues stream.

The **Cash Flow Statement** combines income statement and balance sheet accounts, but specifically avoids the inclusion of any non-cash items such as depreciation. The statement of cash flows takes the cash transactions into consideration by dividing a company's activities into operating, investing, and financing activities and shows the principle inflows and outflows of cash from each of these activities.

Conclusion

While this Advisory barely scratches the surface of accounting, it does demonstrate a very basic background of terms and concepts. As a former educator I would encourage any officer or director to further their knowledge in the study of the numbers behind business. Understanding accounting concepts makes for a better business person. If you would like to know more about accounting resources which can be helpful, please contact The Center at (618) 997-3436.



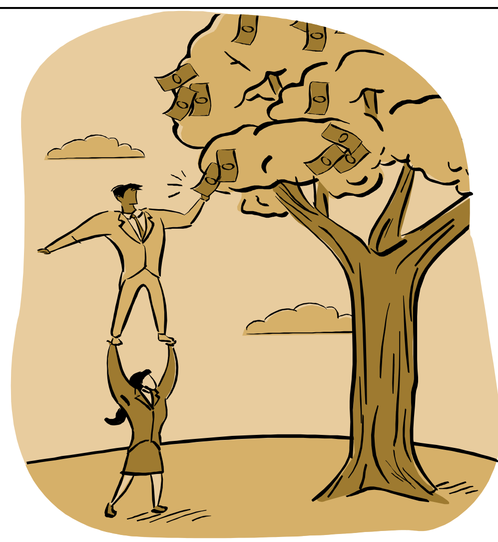
,

About the author:

Roman A. Basi, President of The Center, is an Attorney, Real Estate Broker, and Title Insurance Agent. Roman speaks and advises The Center's clientele on such matters as Business Law, Succession, Estate & Tax Planning and Real Estate.

Points of Interest

- **It is said that accounting is the language of business.**
- **Accounting principles are not universally and eternally true laws…**
- **I would encourage any officer or director to further their knowledge in the study of the numbers behind business.**



u

Legacy M&A Advisors, LLC
970 Lake Carillon Drive, Suite 300
Saint Petersburg, FL 33716

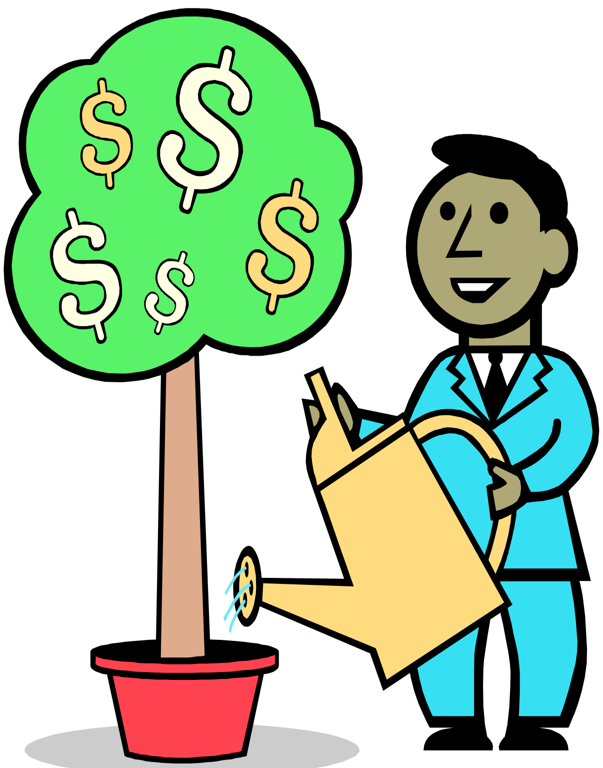
The Center for Financial, Legal & Tax Planning, Inc.
4501 W. DeYoung St., Suite 200
Marion, Illinois 62959

A CASE STUDY CONTINUED:

Editorial Comments: When valuing a business, it is important that all items be included in the valuation. Leaving a material item out of a valuation can only lead to trouble and give the IRS ammunition to use against you. It is important that the taxpayer reach a reasonable conclusion based on the available facts and numbers.

From a defensive standpoint, it is always helpful to note the deficiencies in the IRS's valuation. Everything has its weakness. The IRS opened itself to attack on its case by not including appropriate discounts and considering company comparisons.

Readers should be forewarned that all aspects of a valuation, including comparables should be considered in a valuation.



The Center for Financial, Legal & Tax Planning, Inc.
4501 W. DeYoung St., Suite 200
Marion, Illinois 62959

Legacy M&A Advisors, LLC
970 Lake Carillon Drive, Suite 300
Saint Petersburg, FL 33716

Ten ESOP Fables – Debunked – Part V

This is the fifth in a series of articles that will attempt to dispel ten common misconceptions, or fables, about ESOPs.

ESOP Fable #8: I fear that my employees can sell their stock to someone else.

Another common fear of business owners considering an ESOP is whether employee /shareholders can freely sell their shares to anyone on the street. This concern is addressed by specific restrictions placed on the shares in the employees' stock accounts. Most ESOP plans give the company a specific right of first refusal on all stock contributed to employees.

What this means is your employees, upon distribution, must offer to sell their shares back to the company. This is the mechanism through which the employees receive their retirement funds; and it keeps shares from falling into the hands of unrelated companies or individuals. Further, all shares are distributed with a back-up liquidity measure called a put option. This put option allows the retiring employee to sell (or put) his or her shares back to the company at fair market value. Both the stock restriction and the put option ensure liquidity for the employee, and trade protection for the company.

ESOP Fable #9: I will not be able to sell a part of my company, while leaving the other part to my children.

Often business owners would like to leave their businesses to their children; but must also fund their own retirement years. A logical solution would be to sell a partial interest in the company, and leave the rest to the children. However, selling a partial interest in a privately held company can be nearly impossible, unless the seller will agree to a steep discount in price.

ESOPs, on the other hand, will allow you to sell an interest in your company to its employees, at fair market value, and gift or sell the remaining interest to your children. Under this scenario, your children can remain in control of the company, while you receive a lump sum distribution for the interest sold to the ESOP.

Next month's article will tackle: ESOP Fable #10: An ESOP will remedy all of my company's problems.

As ever, if you know of a business owner who's thinking of selling or buying a business and who might benefit from a ***free***, ***confidential***, consultation with us, have them contact me directly.

Mike Ertel, CBI, M&AMI, CM&AA
Managing Director, Broker
mertel@lmaallc.com
813.299.7862 Direct

©2015 J. Michael Ertel PA

Legacy M&A Advisors, LLC
970 Lake Carillon Drive, Suite 300
Saint Petersburg, FL 33716
Phone: 888-864-6610
Fax: 866-353-0382

The Center for Financial, Legal & Tax Planning, Inc.
4501 W. DeYoung St., Suite 200
Marion, Illinois 62959
Phone: 618-997-3436
Fax: 618-997-8370
Satellite Office:
Longboat Key, FL 34228
Phone and Fax: 941-383-3338

We're on the Web!

www.taxplanning.com
www.legacymandaadvisorsgroup.com

Frequently Asked Questions…

Q. If I lease office furniture with the option to buy, when do I depreciate the purchase price?

A. You must first determine whether the agreement is a conditional sales contract or a lease agreement. If you gain equity or title in an item as you lease it, the agreement more resembles a conditional sales contract. Payments under such an agreement are not deductible in the same way as rent. You should start depreciating the furniture as of the date of the acquisition if you are holding a conditional sales contract.

On the other hand, if the agreement is a true lease agreement, it is appropriate to expense the payments as they are made as rental expense.

Q.   Are business gifts deductible?

A. Generally yes; however, business gifts are limited to an amount of $25. If the person giving the gift exceeds this amount, the excess is nondeductible.

Q. I am exchanging property in a 1031 "like-kind-exchange". Can I exchange my one property for more than one property?

A. Yes. As long as the property being exchanged is within the same class, you may exchange the property for more than one property. When dealing with real estate, you can exchange one property for up to 3 properties.

If you no longer want to receive this e-mail publication, please send an e-mail to mail@legacyadvisorsgroup.com requesting to be removed from our mailing list.

© ***2015 Legacy M&A Advisors, LLC***