ClearSky CPA

Build. Grow. Exit. Minimize Taxes.



CASE STUDY |

BUSINESS ACQUISITION & FINANCIAL DUE DILIGENCE

A $1.35 Million Acquisition. The Best Decision Was Walking Away.

How ClearSky CPA uncovered financial inconsistencies and helped a prospective buyer make a confident decision before committing significant capital.

www.clearskycpa.com

1. The Decision

An experienced entrepreneur was preparing to acquire an established demolition company with approximately $3.1 million in advertised annual revenue.

The proposed purchase price was $1.35 million, significantly below the sellers' original asking price. The company had established customer relationships, experienced employees, and equipment needed to continue operations.

The buyer had already negotiated a purchase agreement and was working with an SBA lender.

Before moving forward, he engaged ClearSky CPA to evaluate the financial records and determine whether the numbers supported the investment.

2. What Was at Stake

What initially looked like an attractive acquisition became increasingly difficult to justify.

Our review identified several significant concerns:

- **Revenue discrepancies:** The business was advertised as generating approximately $3.1 million in annual revenue, but its tax return reported only about $2.3 million.
- **Conflicting financial reports:** Key accounting records did not agree, raising questions about the accuracy of outstanding customer payments and the company's financial position.
- **Limited working capital:** The sellers wanted to retain substantial customer payments, potentially leaving the buyer to fund ongoing operations with additional cash.
- **Unresolved financial risks:** Incomplete equipment records, unexplained accounting adjustments, and questions about contractor payments created further uncertainty.

The concern wasn't simply whether the purchase price was reasonable.

It was whether the buyer could rely on the financial information used to determine what the business was worth.

3. The ClearSky Approach

ClearSky reconstructed financial information from available tax returns, accounting records, and supporting reports to better understand historical earnings and identify discrepancies.

We examined reported revenue, cash flow, outstanding customer payments, owner distributions, and the assets included in the proposed purchase.

We also evaluated potential tax and payroll exposure and discussed how the acquisition structure could affect the buyer's risk.

Rather than relying on the sellers' projections, we focused on what could actually be supported by the financial records.

Our recommendation was clear: without reliable financial information and satisfactory explanations, the risks did not justify proceeding.

4. The Outcome

After evaluating the findings and the unresolved questions, the buyer decided to withdraw from the acquisition.

He avoided committing $1.35 million to a transaction whose financial performance, available cash, and underlying risks could not be adequately verified.

The review didn't produce a tax deduction or a higher business valuation.

It helped the buyer recognize when walking away was the better financial decision.

5. The Bigger Lesson

A lower asking price doesn't necessarily make a business a better investment.

Buying a business means purchasing its future earning potential, not simply accepting its historical financial statements or the seller's expectations.

When the numbers don't reconcile and critical questions remain unanswered, proceeding can expose a buyer to risks far beyond the purchase price.

At ClearSky CPA, we help business owners evaluate significant financial decisions through a combination of tax strategy, financial analysis, and long-term business value considerations.

Because sometimes the best return on an investment comes from knowing which investment not to make.



These case studies illustrate specific client circumstances and outcomes. Results vary based on individual facts, timing, and applicable tax laws. Past results do not guarantee similar outcomes. This information is for educational purposes and is not individualized tax, legal, or investment advice.



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