

The Importance of Separate Financial Statements



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Too often I come across a dentist with two or more locations and there is only one set of financial statements for all the practices. This will give rise to many problems when the dentist wishes to sell only one of the practices. The purchaser and his or her accountant place a high value on their ability to see separate financial statements for the practice which they are interested in purchasing.

If a purchaser is purchasing one of the practices owned by the vendor and there is only one financial statement for all locations, (it is none of the purchaser's business what the other practices are doing,) the vendor would be hesitant to show any financial statements and this leaves the purchaser somewhat skeptical. It certainly does not make it easier to sell the practice.

It is not an expensive request to have the accountant prepare a separate financial statement for each location as well as an overall set of financial statements for income tax purposes. Separate financial statements also permits you to review each location as to its productivity.

We recently represented a nice practice for sale which was a satellite practice without separate financial statements and a number of the banks did not want to fund the sale because there were no separate financial statements. The doctor only had one joint financial statement and we had to create a reasonable financial statement given the billings, rent and staff costs. This is a last resort.

Separate financial statements require the bookkeeper to keep a separate ledger for each practice as much as possible. I realize that supplies can be transported between practices but this is easy to account for. There is a strong belief that financial statements are true and accurate when they are prepared by an accountant but the reality is that they are no better than the information supplied by the dentist. The accountant's statement indicates that there was no audit done although often times the accountant's statement indicates that a review engagement was completed which indicates that the statements were reviewed by the accountant with the dentist in an attempt to identify any potential errors.

Any unusual transactions were discussed to ensure that reasonable steps were taken to avoid any misrepresentation. A review engagement gives the reader a greater level of assurance that the statements are correct but there is no guarantee.

Well presented financial statements with reasonable groupings to reflect the activities of the practice can be a valuable tool in the sale of the practice.

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