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AUSTRALIA + NEW ZEALAND

Case Study

Buy/Sell Insurance and Business Valuations

Topics discussed in this paper include

Buy/Sell Insurance

Succession Planning

Balance Sheet Reporting

This mid-sized construction company took a pro-active approach to insuring Directors. By obtaining an independent business valuation report on a yearly basis, the company avoids any future disputes amongst Director's and their families.

Background

This successful and well-regarded mid-sized construction company is led by a board of five Directors, who are also shareholders in the business. Bruce Black, the firm's forward-thinking Financial Controller suggested the business hold Buy/Sell Insurance for all Directors. This would enable the firm to fund the purchase of a Director's shares in the event of death, serious medical condition or disability.

Situation Analysis

To ensure appropriate insurance cover was maintained over time, the Directors tasked Bruce with monitoring the value of each shareholding on an ongoing basis.

In considering just how to go about this, Bruce realised that he might well be placed in between conflicting interests. On the one hand, the Directors would require a responsible valuation helping to manage the cost of the insurance policy. On the other, the widow of a deceased Director might well feel her husband's shareholding should be worth more.

Given his responsibilities as Financial Controller, Bruce made a detailed recommendation to the Directors that an independent valuation, updated on a regular basis, would be necessary. As the company was of a relatively significant size Bruce regularly prepared cash flow forecasts and budgets to a high level. The quality of the information Bruce could provide would allow the valuer to confidently apply a methodology designed to assess both historical results and forecast expectations.

Outcome

The Directors agreed to the business being valued on an annual basis, especially once consideration was given to the need to avoid disputes if it became necessary to pay out the shareholding of a Director's family in the event of sudden death.

Bruce was pleased to find the regular independently obtained valuation reports also addressed the need to determine the value of the goodwill enjoyed by the firm. The professionally compiled valuation report included a figure for goodwill which could be brought to account on the Company's Balance Sheet, thereby satisfying the firm's auditors.

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