A Good Swift Kick in the Assets

As of January 1, 2011 all Canadian businesses have been affected by new accounting standards.

Public companies, multi-nationals and other specified enterprises must now adopt the International Financial Reporting Standards (IFRS) which promote international conformity. Most private companies will by default adopt the Canadian Accounting Standards for Private Enterprise (ASPE).

If your company is an ASPE adopter, here's the swift kick. Among the myriad changes, lies an opportunity for you to do a one-time revaluation of depreciated capital assets. The result can have an immediate impact on your Balance Sheet. For ASPE purposes you can revalue company-owned real property, plant and equipment and financed leases (no intellectual property or operating leases).

Balance Sheet Boost

If your company is facing any of these scenarios, you can benefit from engaging an appraiser to inspect, itemize and revalue your assets to current market value:

a) We are thinking of selling in the next five years.
b) We will be seeking additional investment or financing.
c) Our current financial statements no longer support the financing we have in place.

In scenario a) and b) you gain a competitive advantage by presenting to the bank or a prospective acquirer both a comprehensive record of your company's assets and their value alongside a stronger Balance Sheet.

There is an additional boost in credibility by having an enhanced Balance Sheet over multiple accounting periods vs. trying to convince a reader that your plant and equipment is worth anything other than the book value on current financial statements. So it's advisable to get the asset revaluation done sooner rather than later.

In c) the boost in asset value may help to get the Balance Sheet back onside with your financers as any increase in asset values will instantly help to improve financial ratios. In some cases, you may have access to new capital given the true value of your assets.

"Wait a minute; won't higher asset values lead to a higher annual depreciation charge and shrink my profit on the Income Statement?" Yes, but for practical purposes anybody who's interested in looking, is looking at EBIDTA or Cash Flow, which is calculated *before* amortization.

Steps to Success

The asset revaluation itself will require that an accredited, expert asset appraiser, conduct the necessary inspections and research then prepare a detailed valuation report. The report and findings will allow you to restate assets to Fair Market Value (FMV) on the Balance Sheet. This professional third party opinion of value conforms to CRA standards and is backed by the full support and expertise of the appraiser should it be scrutinized. The report can also include, at incremental cost, multiple valuations that factor into other business decisions e.g. Replacement Value for insurance coverage.

FMV is what the assets are worth *today* in an exchange between a willing buyer and seller. Book value is an arbitrary number that for 90% of operating businesses will be *lower* than FMV.

The odds are overwhelming that you are in that 90% and can benefit from an asset revaluation.

In preparing your business for sale or seeking new capital it's advisable to engage a CA who specializes in business valuations. They will investigate, prepare and present business performance data to buyers and financers and determine a realistic asking price for your business. Experience shows that this will save you time, money and aggravation in the long run.

There is zero risk or expense to find out if your company is a good candidate for either a full business valuation or a strict asset revaluation. An initial, confidential enquiry will yield a rough estimate of time and costs before you commit to the process and will consider your objectives, the size and complexity of your business and the quantity and location of the assets.

January 1st has already come and gone. It's time to get ready for that kick.

If you have any questions or to find out if your business can benefit from this opportunity and our expertise, please get in touch.

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