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CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Case Study

Professional Indemnity Insurance and Business Valuations

Topics discussed in this paper include

Professional Indemnity Insurance

Buying a Business

Independence

A valuable relationship of professional trust, built up over time, often finds Accountants being asked by regular clients to provide services outside their regular sphere of expertise. Common situations include advising in relation to the purchase or sale of a business where perceptions of bias may call into question the independence of financial analysis. Another issue, often not as apparent, concerns the delivery of professional services and exposure in relation to the coverage afforded by PI insurance.

Background

Mr White operates a small suburban Accounting business. For many years he and his 5 staff members have provided mainly tax, bookkeeping and business services. A long-time client, who was well known in the area, approached Mr White regarding a prospective business purchase. The client's daughter, a chef, was considering buying a restaurant which had recently come on the market.

Situation Analysis

At first glance, Mr White's client didn't consider he was asking anything unusual of his Accountant. Mr White's first thought was just the opposite:

- He would need to quickly do some detailed research on the hospitality industry as he didn't have any clients in the restaurant business.
- Despite being provided with an information memorandum and financial statements for the restaurant, compiling a valuation report was outside Mr White's regular day-to-day business activity.
- Mr White's client base was largely made up of repeat clients who lived in the area. He needed to avoid any risk to his reputation should he accidentally provide inaccurate information or give misleading impressions to a long-time client.

Taking all this into account, Mr White decided to check the coverage afforded by his PI insurance. The provision of business valuations was specifically excluded.

Outcome

Mr White decided to recommend commissioning an independent business valuation, one compiled by a professional with regular experience weighing up the many and varied considerations necessary to properly value a going concern.

He pointed out to his client that this would also help keep negotiations for the restaurant free of any perceptions of bias. As it turned out, the resulting valuation was lower than the original asking price for the restaurant. This helped put the client's daughter in a stronger negotiating position.

An independent business valuation compiled by a professional can help.

Contact BIZVAL to learn more and order your expert business valuation today.



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