

## Unrecorded Cash

By Michael L. Terry

Unrecorded or unreported cash (sometimes called "skim") is a common occurrence in many businesses. However, when it comes time to sell the business this can present a serious problem depending upon how much cash is involved. Generally, what sells businesses for the greatest amount of money is profit. The more profit, the higher the price. Marginal or non-existent profit generally means a low price. If significant amounts of cash go unrecorded, a great business can look like a "dog" and be difficult or impossible to sell. To illustrate this, in some businesses \$10,000 in unreported income could make a \$40-50,000 difference in value.

What do you do to prevent this loss in value? Reporting the cash and "investing" in taxes in the years immediately preceding the sale is really the only way. This will allow the business owner to show what the business is actually doing. It will help show the buyer how they can service the debt and how much they can anticipate in potential salary.

Keeping two sets of books so one could show a buyer how much cash was involved doesn't generally work. Buyers don't believe the figures, since anything could be recorded without any ability to verify them. In a business sale, if it can't be verified, it never existed.

The consequence of continuing the practice until it's time to sell the business is the business owner will just have to sell for a lower sale price, because they took some of the value out of the business early.