



Charting your Franchise Path

A Consultation Guide by
Reeder CPA Group



Reeder CPA Group, an entrepreneurial CPA and consulting firm, specializes in assisting those exploring business acquisition. We collaborate closely with both franchisors and franchisees, while also acting as a resource for franchise consultants. Our role is to help consultants guide their candidates through the intricate journey of entering the franchise world, especially when it comes to optimizing entity structures, strategic tax planning, and funding strategies. We are dedicated to ensuring franchise candidates are well-equipped to make informed and strategic choices, leading to successful franchise ventures.

This consultation guide outlines key topics typically discussed with prospective franchisees.

Consultation Overview

Buyer candidates can reach out to our team to begin customizing an action plan that caters to their unique situation. We can help address questions buyers may have relating to a wide range of topics, including:

- ▶ Accounting
- ▶ Tax
- ▶ Entity Structure
- ▶ Funding
- ▶ Financial Projections
- ▶ Resale Financial Statement Due Diligence
- ▶ Franchise Disclosure Document (FDD) Items 19 and 21 (as it pertains to their franchise investigation and investment process) (also FDD items 5,6,7 when requested)

Contact Us.

The easiest way to schedule a call is to email our team at info@reedercpagroup.com. Please include a brief summary of your situation and your preferred method of contacting you for scheduling. We respond to all requests as quickly as possible.

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Common topics discussed during consultation

Accounting

- ▶ Implementation of a bookkeeping system, often QuickBooks Online
- ▶ Tracking business expenses paid via personal funds and cash and recording on the books via journal entry
- ▶ Recording the Rollover as a Business Start-Up (ROBS) capitalization on the books
- ▶ Payroll journal entries
- ▶ Automation: syncing the business bank and credit card accounts to QuickBooks
- ▶ Bank and credit card reconciliations, bill pay, invoicing, inventory tracking, payroll
- ▶ Discussing who should be the day-to-day bookkeeper and who should be the reviewer of the books, and why

Tax

- ▶ Income tax (federal and state)
- ▶ Social security and Medicare tax (aka self employment tax, FICA taxes)
- ▶ Other payroll taxes
- ▶ Sales tax
- ▶ Flow-through taxation vs C-Corp taxation
- ▶ Double Taxation
- ▶ Understanding how income taxes are different for self-employed individuals compared to employed individuals. The internal revenue code favors the former over the latter
- ▶ Income tax mitigation strategies

Entity Structure

- ▶ S-Corp
- ▶ C-Corp
- ▶ LLC
- ▶ Partnership
- ▶ Sole Proprietorship
- ▶ Discussing the pros and cons of each type

Funding

- ▶ SBA Loans
- ▶ ROBS Program (making sure the candidate fully understands this type of structure)
- ▶ Other conventional business loans
- ▶ State-and-local-sponsored business loans
- ▶ 401k loans (lesser of \$50,000 or 50% of plan assets)
- ▶ Leveraging equity in assets on personal financial statement
- ▶ Cash
- ▶ Credit cards
- ▶ Note: Michael and Reeder CPA Group are not lenders, but the team can discuss funding strategies with candidates, exploring all options worth considering based on the candidate's unique set of facts and circumstances.

Funding Projections

This is a great exercise for any person planning to buy a business. If you are going into business for yourself, then you should take the lead on creating your own business plan, including the financial projections section of the business plan. Funding Projection will be needed if a business plan is required as part of a loan application. Additional topics to discuss include addressing common candidate questions, such as:

- ▶ When am I going to hit break-even?
- ▶ When am I going to hit my replacement income?
- ▶ When am I going to hit a profit percentage of X? Y? Z?



Common topics discussed during consultation (cont.)

Resale Financial Statement Due Diligence

Michael Reeder's team advises buyers during the free consultation call with strategies they can implement as part of their due diligence when negotiating with the seller on a franchise resale, including

- ▶ How to arrive at seller's discretionary earnings (SDE)
- ▶ The types of questions to ask the seller as part of the due diligence

Candidates who retain Michael Reeder at his hourly rate can request an analysis of SDE and a list of due diligence questions to present to the seller. This engagement typically requires 2-3 hours.

Note: Michael Reeder does not negotiate directly with the seller on behalf of the buyer but instead provides the buyer with information to aid them in the negotiation process. At any time, the buyer is at risk of losing out to another buyer.

Disclaimer: Michael Reeder is not a Certified Business Appraiser / Certified Valuation Analyst nor does he audit the financial statements of the seller. Reeder does not produce a quality of earnings report or something similar to a broker's opinion of value.

Franchise Disclosure Document (FDD)

One of the pivotal steps in vetting potential franchises is reviewing their franchise disclosure documents (FDDs). Our team can assist in helping potential franchisees understand items 19 and 21 of the FDD:

Item 19

- ▶ Helping candidates navigate the financial statistics found in this section of the FDD and what they mean
- ▶ A great source for data that can be inputted into a franchise candidate's financial projections (e.g., revenue assumptions, variable cost assumptions)

Item 21

- ▶ Walking one through the franchisor's audited financial statements found in this section of the FDD and what they mean (balance sheet, income statement, statement of cash flows, statement of changes in owners' equity)
- ▶ Walking the candidate through the footnotes that follow the audited financial statements and what they mean
- ▶ Potential franchisees can retain Michael Reeder at his hourly rate beyond the consultation call(s) to do his own analysis of the franchisor's item 21 and list of due diligence questions to present to the franchisor. These engagements typically require 2-3 hours.

Case Study

Michael Reeder recounts a conversation he had with a buyer:

"Coming into the call, the buyer was planning on using the ROBS C-Corp structure to invest in two hair salon franchise territories. This buyer's plan was to keep his corporate job and invest in this business as a semi-absentee model. During the call, I devised a strategy going S-Corp for the first territory and C-Corp Robs for the second territory. By doing this, the buyer was able to take his loss from the build-out and start-up phase of the first territory and flow it through to his individual income tax return where it netted against his six-figure corporate W2 income, thus saving him thousands of dollars in taxes on his individual income tax return. This buyer continues to be one of my clients for ongoing accounting and tax services."

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