
SELLING A BUSINESS

CHECK LIST FOR THE SALE OF A BUSINESS

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Paper 36.10
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SELLING A BUSINESS

CHECK LIST FOR THE SALE OF A BUSINESS



Paper 36.10



The following is a summary of the information which should be checked and/or prepared if you are contemplating selling your business:

1. Debtors

- .1 Review debtors list and write off all bad debts.
- .2 Chase up all outstanding debtors.
- .3 Prepare Debtors' Aged Analysis.
- .4 Calculate number of days debtors outstanding.
- .5 Compare number of days debtors outstanding to inter-firm comparisons prepared by FMRC Business Benchmarks Pty Ltd for your industry or other Benchmarking Groups. For further information, refer to Paper 05.05 - "Sundry Debtors".

2. Stock

- .1 Sell or scrap all old, damaged or deteriorated stock.
- .2 Calculate Stock Turn ratios for the various categories of stock.
- .3 Compare Stock Turn Ratios to Industry Averages.
- .4 Take appropriate action to improve Stock Turn where necessary.
- .5 Review the Stock Control Reports being prepared. If any improvements are necessary - effect them. For further information, refer to Paper 05.11 - "Stock Management".

3. Creditors

- .1 Prepare a Creditors' Aged Analysis.
- .2 Prepare a summary of the negotiated payment terms with each creditor.

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- .3 Prepare a summary of creditors' outstanding balances as compared to the negotiated payment terms.
 - .4 Bring Creditors' balances into line with the negotiated payment terms. For further information, refer to Paper 05.60 - "Sundry Creditors".

4. Intellectual Property

- .1 Prepare a list of all Intellectual Property owned by the business. This will include:
 - Patents
 - Trademark
 - Copyright
- .2 Has all the legal documentation, relative to the ownership of the Intellectual Property, been attended to?
- .3 If not, prepare a list of what has to be attended to.
- .4 Have the appropriate assignments of any interest in the various Intellectual Properties been signed by staff or sub-contractors?

5. Lease of Premises

- .1 Review any Lease Agreements to ensure that the business owner (lessee) can sell the business to another owner and that the Lease will be transferred.
- .2 If there are conditions relative to the transfer of the Lease, discuss these with the Landlord to determine whether there will be any objections to the assignment of the Lease.
- .3 If the location of the leased premises is vital to the long term viability of the business - attempt to secure a longer lease before listing the business for sale.

6. Business Systems Manual

- .1 The existence of a Business Systems Manual is very important in accessing the value of goodwill of the business.
- .2 If the business has a Business Systems Manual, review the Manual to ensure that it is current and that the actual System utilised within the business is in accordance with the Business Systems Manual.
- .3 If there is no Business Systems Manual, give consideration to the implementation of a Business Systems Manual, so that it is available for a prospective purchaser to review. For further information, refer to Paper 04.60 - "Systems For Business".

7. Premises

- .1 Prepare a list of any maintenance work that is required within the business premises, including:
 - general clean up
 - windows
 - stock room
 - amenities
 - any painting that is necessary
- .2 Have these repairs attended to.

8. Staff

Critically examine the general presentation and attitude of staff. If changes are necessary, introduce appropriate:

- staff training
- staff evaluations
- staff uniforms
- contracts

9. Signs

Inspect any signs that the business has, to ensure that these have been appropriately repaired.

10. Customers' List

Prepare a list of all customers, showing:

- name
- address
- telephone number
- facsimile number
- email address
- contact person

together with details of sales made to each customer over the last three (3) years. If possible show details of gross profit contributed from each customer over the last three (3) years. For further information, refer to Paper 18.10 - "Customer Database".

11. Top 20% Of Customers

Prepare a list of the top 20% of customers, indicating the:

- sales made to them for each of the last three (3) years
- gross profit contribution on an annual basis
- and other key information relative to these customers

12. Suppliers

- .1 Prepare a list of all suppliers to the business under individual “Supply Category” headings, showing:
 - name
 - address
 - telephone number
 - facsimile number
 - email address
 - contact person
- .2 Show details of purchases from that business for each supply category for each of the last three (3) years.
- .3 Include details of negotiated payment terms with the suppliers.

13. Quality Assurance System

- .1 If the business has a Quality Assurance System, undertake a review of it to ensure that it is functioning in accordance with the Systems Manual.
- .2 Prepare a list of the customers of the business that have required the business to have a Quality Assurance System.
- .3 Include details of those customers’ audit requirements, relative to the Quality Assurance System.

14. Trade Secrets

- .1 Prepare a list of any trade secrets of the business. This might relate to:
 - recipes
 - agreements with suppliers
 - agreements with staff
 - agreements with customers
- .2 Ensure that all trade secrets are current and are appropriately signed and are located in a safe place.

15. Marketing Strategies

Prepare a summary of the strategies of the business for marketing to its present customer base and potential customers. In particular highlight the strategies developed for marketing to "A" Class and "B" Class customers. For further information, refer to Paper 08.40 - "Marketing For Small Business".

16. Government Accreditations

If the business has any Accreditations from any Government - State or Federal - prepare a detailed list of such Accreditations.

17. Export Market Development/Negotiations

- .1 Does the company already export?
If so, enclose a summary of the names, addresses, telephones, facsimile numbers, email address and contact names of overseas customers, including details of sales to those customers over each of the last three (3) years. Also summarise any particular points relating to dealing with each of those customers.
- .2 Prepare a list of all overseas contacts, such as Austrade, Solicitors, Accountants, Banks, Trade Associations etc., that are currently used.
- .3 If the business is not exporting, but has carried out negotiations for the sale of products to overseas countries, include details of:
 - names
 - addresses
 - telephone numbers
 - facsimiles numbers
 - email address
 - contactsfor each of the potential customers, together with details of the types of products which you are proposing to sell to those customers.
- .4 Include details of any contacts in overseas locations such as Austrade, Solicitors, Accountants, Bankers, Trade Associations etc., with which there has been contact relative to negotiations for the sale of product overseas. For further information, refer to Paper 15.01 - "Exporting Overview".

18. Business Plan

Review the organisation's present Business Plan. Amend it where appropriate to delete any reference to the current owners and update the Business Plan, so that it can be made available to a prospective purchaser. For further information, refer to Paper 09.01 - "Business Plan Overview".

19. Records

- .1 To negotiate the sale of a business and obtain the highest possible price, it will be necessary to submit full details of all the business records. These will include items such as:
 - Cash Books
 - Bank Statements
 - Bank Deposit Books
 - Cheque Butts
 - Creditors' Invoices
 - Debtors' Invoices
 - Debtors' Aged Analysis
 - Creditors' Aged Analysis
 - Stocktake
 - Stock Recording System
 - Journals
 - Ledgers
 - Periodic Financial Accounts
 - Income Tax Returns
 - Annual Financial Accounts

- .2 If a company:
 - Minute Book
 - Registers
 - Declarations relative to payment of income tax, Pay As You Go Instalment payments and Pay As You Go Withholding - for the amount withheld from salaries and wages
 - Fringe Benefits Tax
 - Payroll Tax
 - WorkCare

20. Portfolio Allocations

Prepare a summary of the portfolio allocations throughout the business for management and staff.

21. Corporate Chart

Prepare a Corporate Chart for all staff in the business, showing the direct work responsibilities allocation and the portfolio allocation.

22. Meeting Structure

Prepare a list of the formal meeting structure within the business, including:

- Work Planning Meetings
- Weekly Management Meetings
- Monthly Management Meetings
- General Staff Meetings
- Board of Directors or Board of Advice Meetings

23. Key Employees

Prepare a list of the key employees of the business and enclose a copy of their contract and job descriptions.

24. Financial Information

Assemble the financial information which will have to be made available to a prospective purchaser. This will include:

- Trading and Profit & Loss Accounts for the last three (3) years
- Detailed Departmentalised Trading and Profit & Loss Accounts for the last three (3) years
- Income Tax Returns for the last three (3) years
- Debtors' Aged Analysis for the most recent year
- Creditors' Aged Analysis for the most recent year
- Calculation of Work in Progress Report
- Valuation of Stock Report
- Key Performance Indicators for the business
- Calculation of the Future Maintainable Profit Estimate for the business after adjustment for items which are adjusted from the financial accounts in the preparation of future maintainable profit estimates

25. Budgets And Cashflow Forecasts

Enclose a copy of the business's Budgets and Cashflow Forecasts.

26. Real Property

List any real estate to be sold, together with the Seller's valuation for that property.

27. Plant And Equipment Etc

Enclose a list of any Plant and Equipment, Fixtures and Fittings, Motor Vehicles etc., to be sold, together with the Seller's valuations for those assets.

Prepare a list of any Plant and Equipment, Fixtures and Fittings, Motor Vehicles etc., that are subject to Lease or Bill of Sale. For further information, refer to Paper 02.30 - "Fixed Asset Control".

28. WorkCare Premiums

State the WorkCare Premium being paid, together with the current claims position. For further information, refer to Paper 05.93 - "Work Cover".

29. Historical Data

Include a summary of any historical data associated with the business e.g. commencement date, important people who have worked in the business or have owned the business, and other interesting information.

30. Reasons For Selling

It can be desirable to have a list of the reasons why you want to sell the business.

31. Liabilities To Be Taken Over

If it is proposed that the purchaser takes over any liabilities of the business, then a summary of these should be prepared.

32. If A Company - Full Corporate Records

If the business is a company, then a full declaration will need to be made that Corporate Records, Directors' Minutes, Shareholders' Minutes and Registers have been properly maintained and that Annual Returns have been lodged. An indication should be given as to whether an "Interposed Entity Election" has been made. Once made the election is irrevocable. For further information, refer to Paper 12.46 - "Taxation Treatment Of Trusts".

33. Declaration That All Returns Have Been Lodged

The Seller should prepare a Declaration that all Income Tax, Fringe Benefits Tax, WorkCover, Payroll Tax Returns etc., have been lodged and that all payments that are necessary for any of those taxes have been paid.

34. Company - Environmental Issues Declaration

Has the company complied with all Environmental Laws? If not, in what areas has there been non compliance?

35. If A Company - Trade Practices Legislation Declaration

The Seller should prepare a declaration that the company has abided by all Trade Practices Legislation requirements.

36. Adjustments

List details of any adjustments that will have to be made in the settlement relative to pre-payments, rates, insurance etc.

37. Key Strategic Advantages/Competitive Advantages

- .1 Prepare a list of the key strategic advantages of the business, outlining why the business is an outstanding purchase.
- .2 Prepare a list of the competitive advantages of the business. What competitive advantages does the business have?

38. Business Name

Check that the name under which the business operates is registered as a Business Name.

39. Franchise

If the business is a franchise.

- .1 Make available a copy of the Franchise Agreement.
- .2 Contact the Franchisor and enquire about the conditions pertaining to the transfer of the Franchise.

40. Proposed Apportionment

List details of the proposed apportionment of the sale price for the business.

41. Unit Trust

- .1 Has the Unit Trust ever resolved to be a Family Trust?
- .2 Has that resolution ever been revoked? (A Unit Trust can only revoke the resolution to be a Family Trust once).
- .3 If the Unit Trust has resolved to be a Family Trust and has never previously revoked that resolution, it is recommended that you seek professional advice on the consequences before agreeing to revoke the resolution.
- .4 A purchaser of Units in the Unit Trust will probably want the resolution to be a Family Trust revoked because any distributions other than to the Test Individual or the Test Individual's Deemed Family will be taxed at 48.5%.

42. Professional Advice

There are many traps relating to the most tax effective way to sell a business. It is recommended that you obtain advice from a Professional Accountant or Solicitor prior to signing any documents relating to the sale.

LINKS:

Paper 02.30	Fixed Asset Control
Paper 04.60	Systems For Business
Paper 05.05	Sundry Debtors
Paper 05.11	Stock Management
Paper 05.60	Sundry Creditors`
Paper 05.93	Work Cover
Paper 08.40	Marketing For Small Business
Paper 09.01	Business Plan Overview
Paper 12.46	Taxation Treatment Of Trusts
Paper 15.01	Exporting Overview
Paper 18.10	Customer Database