

# Special Bulletin

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## Due diligence – action checklist

Buying a business is a major decision. The purchase of a business can be done either through an asset sale, or the purchasing of shares in a company or interests in a trust. Regardless of the choice, it is important to ensure that a due diligence report into the business to be purchased has been conducted. The checklist below highlights common areas that must be considered when buying a business. The information gathered should be discussed with your professional adviser.

Item	Yes	No
<b>Financial health</b>		
1.	Have you obtained the last four years' financial statements of the business and audit reports, if applicable, together with a description of any changes in accounting methods?	
2.	Have you obtained the current year-to-date financial statements?	
3.	Have schedules of the following been obtained, where applicable: liabilities (including contingent liabilities), inventory, and accounts receivable and payable?	
4.	Have you obtained the company's minute book, including all minutes and resolutions of shareholders and directors?	
5.	Have you obtained an up-to-date copy of the business' credit report, if available?	
6.	Has a comparison between the business' gross profits with the industry trends been done?	
<b>Taxation considerations</b>		
7.	Have you obtained the last four years' income tax returns and GST returns of the business?	
8.	Have you obtained confirmation that all taxes such as income tax, GST, PAYE withholding and payroll tax are up to date?	
9.	Have you familiarised yourself with the tax obligations of the entity to be purchased? <i>TIP: Where the business is conducted through a company, consideration must be given to the duties of a director under the tax law.</i>	
10.	Have you considered whether the purchase of the business will be a supply of a going concern?	
<b>Employee obligations</b>		
11.	Have you obtained a list of employees, including their positions, current salaries, entitlements and benefits paid during the last four years?	
12.	Have you obtained resumes of the key employees?	
13.	Have you obtained a copy of the employment handbook?	
14.	Have you obtained copies of collective bargaining agreements, if any?	
15.	Do you have a description of all employee personal grievance issues within the last four years?	
16.	Have all outstanding employees' entitlements such as superannuation and annual leave been accounted for?	
17.	Are the ACC premiums up to date?	
<b>Trading stock</b>		
18.	Does the trading stock include any obsolete stock?	
19.	Has the trading stock been valued at market value?	
20.	Have you obtained a list of all products or services under development?	
21.	Have you obtained all market research reports relevant to products or services under development?	

Item		Yes	No
<b>If you are buying a business through a sale of shares, be sure to examine:</b>			
22.	The company's minute book, including all minutes and resolutions of shareholders and directors.		
23.	The company's list of shareholders and their shareholdings.		
24.	The organisational chart.		
<b>If you are buying a business through an asset sale:</b>			
25.	Has an asset register been obtained detailing all the assets being sold? <i>TIP: The register should detail the following information about the assets: their location, the original purchase price, the purchase date, the depreciation rate used, the effective life of the asset, and the written down value</i>		
26.	Have you checked the ownership and condition of the assets being sold?		
27.	Where the assets are leased by the business, have you obtained copies of the leases? <i>TIP: If you are taking over the existing leases, consideration should be given to whether the leasing terms are reasonable.</i>		
28.	Are the assets adequately insured until settlement of the purchase?		
29.	Has the purchase price been apportioned across the assets being purchased?		
<b>Business premises</b>			
30.	Have you sighted copies of all real estate leases, deeds, mortgages, and any relevant documents to all the company's premises and locations?		
31.	If there are improvements to the business premises, has a register been obtained detailing the improvements? <i>TIP: The register should detail the following information: the cost of the improvements and date of construction or acquisition.</i>		
<b>Where the business is conducted through a company:</b>			
32.	Has a company search been done to verify the vendor?		
33.	Are all the financial reporting requirements up to date?		
<b>Regarding marketing, sales and PR, obtain:</b>			
34.	Copies of all articles and press releases relating within the past four years.		
35.	A schedule of the ten largest customers in terms of sales and explanation for any major customers lost over the last two years		
36.	A list and description of major competitors.		
37.	A copy of any supply or service agreements, purchasing policies, credit policy.		
38.	A schedule of unfilled orders.		
39.	The current advertising programs, marketing plans and budgets, and printed marketing materials.		
<b>Other considerations</b>			
40.	Are the business operations subject to any government regulations? If so, are all relevant government licenses, permits, or consents up-to-date?		
41.	Have you obtained copies of environmental audits, if any?		
42.	Have you obtained a list of environmental permits and licenses?		
43.	Have you obtained a listing of hazardous substances used?		
44.	Have you given thought to whether the structure (company, partnership or trust) that the business operates through is suitable for your needs? <i>TIP: The structure of the business will determine your legal obligations. Factors that should be taken into account include asset protection and succession planning.</i>		
45.	Have you searched the local council and other government agencies records to ensure there are no plans or council orders that could disrupt the business or lead to a potential drop in sales?		

Important: This is not advice. Clients should not act solely on the basis of the material contained in The *Special Bulletin*. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The *Special Bulletin* is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval. 177/08