Buying a Business

Stephen Larsen and Co
TAX AND BUSINESS ACCOUNTANTS

Disclaimer

This kit has been prepared solely to provide clients of Stephen Larsen and Co background information relating to buying a business.

It has been developed to complement but not replace the specific advice which will be provided to suit the circumstances of each particular case.

The kit is only issued to qualified clients of Stephen Larsen and Co.

It is not to be used for any other purpose and no responsibility whatsoever is taken for any other person or any other use.

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Thank you for your understanding and co-operation.

Buying a Business

Introduction

Buying a business is likely to be one of the biggest financial transactions that you will ever undertake. It makes sense to invest time and money to ensure that you acquire an asset which lives up to your expectations.

At Stephen Larsen and Co our role is to help you appreciate the issues and make an informed judgement whether to proceed. This kit is part of the way in which we want to work with you during this important evaluation phase.

Please ensure that all documentation, correspondence, and notes are filed together with this guide. This will ensure that you are able to locate items as they are required.

Keep an open mind on the facts as they emerge. Remember, it is a business decision, and it is important not to let emotions override rational thinking.

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Starting the Process

The starting point

Let's start out with some basic facts:

Buying a business means that someone else, the vendor, is going to benefit. The vendor will be approaching this from a self-centred point of view, not with your interests in mind.

Most business owners have an over-inflated view of what their business is worth. This will often mean the starting price for the business is too high. It may also mean that emotional issues intrude into negotiations.

There are many business opportunities both now and in the future: Do not feel constrained to limit your consideration to just one opportunity.

Setting up in competition is in many cases a less expensive option.

If you have been introduced to this opportunity by a business broker, be aware that he or she will earn a fee for the successful sale. That is not to say the broker will not give you valuable advice - he or she almost certainly will. However, don't feel obligated. At the end of the day, it's your money and your decision.

The investment decision

The critical decision to make in evaluating the business is whether it is a good deal. The investment must produce an adequate return, given the nature of the business and the degree of business risk undertaken.

The return on the investment should be evaluated after considering the fair remuneration that should be allocated to the time and effort put in by the owners.

We do not recommend you go into an investment if all you are doing is 'buying yourself a job'.

We recommend that you invest an hour with us to become familiar with the methodology that we use in evaluating business opportunities. This is based upon the 'Economic Value Added' model.

Once you have an appreciation of the methodology, we will sketch out the first scenario for the business.

It is here that it is important that you work with us to prepare a realistic model. Keep in mind that it is not so much a matter of what the business has done and how it has been financed to date. Rather, it is what the business will earn you given your strategies, your capital structure, and your personal wage (if you are working in the business).

It may take some time and several scenarios to determine an appropriate model to make investment decision.

Together, we can combine our knowledge to prepare some realistic scenarios to inform your decision.

An important message for new clients	Should you be a new client to Stephen Larsen and Co, we will discuss the fee arrangements with you at the initial meeting. If we jointly agree to proceed with the due diligence process, then we4 will ask you to make a payment in advance. This is mainly because a considerable amount of work will be performed on your behalf within a short space of time. Naturally, we will advise full details of the services provided to you as the assignment progresses.
Payment of our accounts	Usually, circumstances dictate that the work we perform is undertaken by a senior member of our team and is given high priority. It is usual to have meetings at late notice and/or after normal trading hours. This service is willingly given. All we ask is you give the same priority to paying our accounts.
If you have not previously engaged a professional service firm	Many people using our services to buy a business are using the services of a professional service firm for the first time. If you are in this situation, please do not hesitate to ask any questions about the process. Because what we provide is by and large an intangible commodity, it is important that together we keep the lines of communication open. Essentially, our remuneration is based upon the hours we spend working on your behalf. Time spent preparing analyses, in meetings with you and in liaising with other professionals on your behalf is what you will be paying us for.
Guide to Buying a Business	Your investment in our services includes this guide. The guide contains information which you can absorb at your leisure, rather than at an hourly rate in meetings with us. In the guide, we have included many of the lessons learned over years of being involved in such evaluations. Just one such tip alone could save you many thousands of dollars!

The Facts about Buying a Business

Introduction	Purchasing a business can be an exhausting and heart-wrenching process, so let's be brutally honest about what you're getting yourself into.
The Due Diligence process	You are embarking upon a time-consuming process, which will require you to schedule appointments with various advisors etc, often with little notice. This is usually a time of great uncertainty, as you work towards a decision. Remember, a cool head is required during this time... especially in the negotiations!
Your chances of success	Keep in mind that 80% of businesses fail within the first 5 years. Remember - your capital is at risk! The better the systems existing in the business and the lower the degree of reliance upon the outgoing owner, the more chance you have of success.
The need for adequate capital to get started	For the first six or more weeks after buying your business, you will require access to ready capital. This is to pay for the diligence process, setting up the right legal structure, as well as your initial orders of business cards, stamps and even marketing! While you are waiting for revenue to start coming in from your first customers, you will also need access to sufficient capital to support your personal living requirements. Starting a business in an under-capitalised position will dramatically reduce your chance of success.
Have you got what it takes?	Not everyone is cut out to be in business for themselves. The stark reality is that being in business for yourself often means long hours, especially in the early years. Your personal capital is at risk, and you will be called upon to make significant decisions daily. In fact, some people are better suited as employees. The more you know about the industry/field, plus the more business management experience you have, the more you are likely to succeed. The support of your family is paramount.
The information you are provided with	The information you receive from the vendor is a very good indication of the state of the business. Many times, this could be a dog's breakfast of half-baked figures, prior year accounts and some scribbled notes - treat these early warnings with caution!

What are you buying?	It is important to be clear about what it is that you are buying. For example, is it shares in an existing company or just the business? A business can consist of many components, some of them tangible, others not. We recommend that fixed assets are listed in a schedule and a specific amount is attributed to each one. This has particular significance in claiming depreciation expenses in your future tax returns. Intangibles could include: ▪ Business names ▪ Registered designs, patents, trademarks ▪ Client and prospecting lists ▪ System manuals ▪ Rights to territories ▪ Use of premises Your solicitor will help you assess the degree to which you can obtain valid, exclusive rights. There is no sense paying good money for something that cannot be enforced.
Evaluating a franchise	It is common to receive an information kit from a franchiser if you are examining this type of business. Some of these are excellent, others less so. Frequently overlooked items in financial projections provided by franchisers are: ▪ Depreciation of fixed assets ▪ Interest costs ▪ Leasing expense ▪ Wages for working proprietors
The purchase negotiations	Having determined what you would like to pay for the business, the next step is to successfully negotiate this with the vendor. In consultation with us, you may decide to make an offer significantly below that which has been presented to you as the worth of the business. How the negotiations proceed and what you offer are important decisions, which can only be determined after consideration of all the circumstances. In the case of a franchise, particularly if you are dealing with a large organisation, there will usually be little scope for negotiation of the purchase price.

Your Team of Advisors

Introduction	To put the deal together will require coordination of a small team of experts. The core part will be: ▪ Stephen Larsen and Co as your financial/business development advisors ▪ A solicitor who is experienced in commercial matters ▪ Your bank manager There may well be other people whom we involve. These could be recognised experts in a particular business or field of expertise (e.g. intellectual property, franchising). You may want to seek opinions from family members and acquaintances. All of this is fine, so long as it is controlled and coordinated (and you don't get confused!). We prefer to be the hub of this activity or at least have access to all information. Without this we will not be able to do the best job possible for you.
Conflicting advice	It is to be expected that you will receive advice from all quarters during this time. Not all of this will be good advice! It is important that you assess the qualifications of people dispensing the advice before deciding to accept it: ▪ Have they been in business themselves? ▪ Were they successful? ▪ Are their financial affairs in order? ▪ Do they know about this particular industry? Naturally, if you would like to discuss any points raised by other sources, you are very welcome to do so. We would prefer any doubts, concerns or reservations to be out in the open so that they can be discussed, and a decision made. We don't want to be operating on the basis that all is well if you have reservations or concerns about the process.
Authority to act on your behalf	It may be necessary for you to provide us with express authority to act on your behalf with some parties, such as your bank. This will be discussed with you as the circumstances arise.

Preparing Yourself

Keep yourself organised	The period you are entering into can be one of great anxiety, brought upon by the excitement and uncertainty of the evaluation, together with the financial stakes involved. Be prepared for this. Many issues will be going through your mind. Keep notes, so you can be prepared for your meetings. You are doing yourself a disservice by having a briefcase full of ‘stuff’. This is a recipe for overlooking something important and missing a vital deadline.
File notes re meetings and conversations	It is important that you keep records of matters discussed, particularly with the vendor. These records form part of the undertakings provided, and you may need to have reference to them later. We will endeavour to provide you with file notes of the meetings you have with us. It is also our usual practice to document matters discussed in telephone conversations.
Resources	‘The E Myth Revisited’ by Michael Gerber is available in most major bookstores and one of the best business books ever written. Buy it today and read it. Read it again, and then let’s talk about its relevance to your situation.
Legal documentation	We recommend you take the time to read all legal documentation relating to the arrangements. Not only will this help ensure you know what you are getting into, but it could potentially save you in time (i.e. fees) with your solicitor.

Preparing to take Delivery of the Business

Getting shown 'the ropes'

It is usual to have meetings with the outgoing owner to learn about how the business operates.

Take this opportunity. It is preferable to do this before committing to the business.

If a phase-out process is part of the post-sale arrangements, it is important that this be clearly documented.

Setting up an accounting system

The business you acquire may not have an adequate accounting system. This is the bedrock of all your business decisions, without which you will fail.

We will discuss appropriate solutions with you for your new business.

Survival and Frequency of Accounting Reports

Frequency	Survival Rate %
At least monthly	79.7
Quarterly	71.5
Half-Yearly	49.9
Annually	36.0

Source: Williams, A.J, 'A Longitudinal Analysis of the Characteristics and the Performance of Small Business in Australia.'

Stock

If the business being acquired has stock, special arrangements will need to be made to ensure that:

- You receive what is stated in the contract
- You have sufficient stock to commence trading

It is usual to adjust the stock value on the day of settlement to reflect the actual value of what is being taken over.

This is determined by performing a stocktake and costing the stock items.

Insurances

One of the most important aspects of running a business is making sure you have adequate insurance cover in case something goes wrong. All too often small business owners don't consider all their insurance needs until it is too late. Contact your insurance broker before you start out in business and make sure you are covered for the unexpected.

Do you have cover for site and equipment, vehicles, electronics, furniture and fittings, stock, wages and salaries, loss of profit, additional/increased cost of operating your business, claim preparation costs (accountant, solicitor, and insurance advisor fees), reinstatement of records?

See also the guide in the next section.

Utilities

Organise telephone and fax, internet access, electricity, and any other utilities for a smooth transition from the start.

Restraint of Trade	An important aspect to consider is whether the vendor should be the subject of restrictions, to ensure your new business has the best chance of success.
Cash flow	We can't stress enough that having a positive cash flow is a necessity if your business is to succeed. Positive cash flow just doesn't happen - it needs to be planned. We strongly recommend the preparation of a 12-month cash flow budget before you start the business. There are many tricks of the trade to preserve your cash flow - leasing particular assets as opposed to buying them is a good example.
Profit and cash flow	It is often not fully appreciated that making a profit does not necessarily mean cash flow will be positive. A wise man once said, "profit is an opinion, but cash flow is a fact." The following often contribute differences between profit and cash flow: ▪ Debtors ▪ Work in progress ▪ Stock ▪ Fixed assets ▪ Shortened supplier terms of credit ▪ Change in sales mix, with an increasing proportion of credit sales as opposed to cash sales ▪ Loan repayments ▪ Taxation ▪ Dividends ▪ Depreciation The cash flow budget and the other scenarios we will prepare on your behalf will take these factors into account. Please do not hesitate to ask us if you require further clarification in this important area.

Insurances

Introduction	While insurance requirements vary greatly from one business to another, the following is a guide to the most common types.
Commercial Building	Covers full replacement value including loss of rental income for 12-24 months minimum and landlord liability.
Material Damage	Covers the assets of your business such as buildings, stock, plant and equipment against physical loss, destruction, or damage. When arranging insurance, you may cover stock, buildings and plant for their full replacement cost and allow for seasonal increases in stock values.
Income Protection	Insures against loss of gross profit following damage to the assets of your business. The increased cost of operating your business after such misfortune may also be covered plus outstanding debtors and loss of rent receivable.
Business Interruption	Covers the loss of income that a business suffers after a disaster while its facility is being rebuilt. The sum insured should be for the full Gross Profit figure allowing for trends over the next year or two. An adequate indemnity period is vital: 12-24 months minimum.
Public Products/Liability	Including Statutory Liability and Employer’s Liability. Insures you against claims, for which you are legally liable, made on your business by members of the public as a result of death, injury or damage to property. You can also be protected against claims related to the following events: ▪ The nature, condition or quality of products you sell or supply ▪ Your liability as a tenant ▪ Your liability for the goods of others left in your custody
Burglary	Covers loss of or damage to stock, plant, equipment and other contents caused by burglars. You select the amount of protection required which can allow for seasonal increases in stock value. In addition, the policy automatically provides cover for damage to premises sustained in a burglary, costs of temporary security following a break in, and replacement of locks should keys be stolen.
Glass Breakage	Enables you to insure against breakage of fixed external and internal glass and other nominated breakable objects such as signs. The policy automatically covers damage to frames replacing signwriting and ornamentation, damage to stock, and costs of temporarily shutting.
Money	Provides protection for money while in transit, on your business premises during and outside normal business hours, while in a locked safe, and while in the private residences of authorised persons. Damage to safes and strong rooms may also be covered and seasonal increases in money held may also be allowed for.
Employee Dishonesty	Enables you to insure against the risk of employees fraudulently or dishonestly taking money or goods belonging to your business.

Electrical Mechanical Breakdown	Allows you to insure nominated items of electrical and mechanical plant against sudden and unforeseen physical damage. In addition, refrigerated stock may be covered against deterioration following damage to insured refrigeration equipment.
Computer and Electronic Equipment	Insures nominated computers and electronic equipment against sudden and unforeseen damage. Cover may also be arranged to meet data media restoration costs following loss of information and the increased costs of maintaining a substitute data processing system after an insured equipment breakdown.
Special Risks – General Property	Covers specified property anywhere in New Zealand against accidental physical loss, destruction, or damage. Valuable plant and equipment items taken away from your business location should be insured under this section.
Motor Vehicle	Covers specified motor vehicles against accidental damage and theft plus your legal liability for damage that insured vehicles may cause to the property of others.
Marine/Transit	Covers stock, equipment, livestock, refrigerated produce, liquids etc. being transported within the country and overseas. Nowadays, Marine insurance is often grouped with Aviation and Transit (i.e. cargo) risks, and in this form is known by the acronym 'MAT'. For transit within New Zealand by land or air, transit insurance can give you a choice of insuring nominated property while in transit against either: ▪ Accidental damage; or ▪ The more limited risks of fire, flood, collision, or overturning of the conveying vehicle
Personal Accident and Illness	Allows you to insure any number of specified persons (usually proprietors or partners) world-wide, 24 hours a day, seven days a week. You may nominate the cover required for weekly benefits payable for up to 104 weeks in the event of accident or illness and lump sum amounts in the event of death or major disabling injuries caused by accident.

Key Person	Also known as keyman insurance, it compensates for financial losses and facilitates business continuity arising from the death or extended incapacity of the member of the business specified on the policy. It does not indemnify the actual losses incurred but compensates with a fixed monetary sum as specified on the insurance policy. Most business people are aware of the need to insure against loss of property or assets through fire or theft but they often overlook their most important asset. What would happen to your business if a key person was permanently disabled or died? Knock-on effects would include: ▪ Profitability decline due to the loss of key sales or production staff ▪ Money would need to be outlaid to find a suitable replacement ▪ Pressure would be placed on remaining staff and/or family members ▪ Credit may be affected if the bank becomes aware of the impact on the business ▪ The remaining employees might feel that their future is insecure Life insurance arranged on the life of your key employees and owned by the business, will provide a cash infusion in the event of death or disablement of key people.
Business Insurance Life Plan	A life insurance plan will provide the cash required to repay a business loan on the death or disablement of a principal. Such loans are usually secured by a charge over the business assets and the guarantees of the principals. Cash provided by life insurance will discharge the business' liability, protecting the business assets and the estates of the guarantors.

Establishment Costs

Introduction	Here is an indication of some of the types of costs that may be incurred.
Legal fees	▪ Check the lease of premises ▪ Business names search ▪ Intellectual property review ▪ Review contract of sale ▪ Restraint of trade clauses to be considered ▪ Clarify your obligations re staff entitlements - annual leave, long service leave ▪ Relationships with key suppliers, customers ▪ Royalty payments ▪ Review of your existing will
Bank	▪ Loan establishment fees ▪ Mortgage fees ▪ Working account fees, e.g. stamp duty for your first cheque book
Setting up a new business structure	▪ Company - allow $ plus GST ▪ Trust - allow $ plus GST

Stephen Larsen and Co – Our Services

Introduction

The services we provide to you will depend upon the circumstances.

Our approach is to go in a step-by-step manner, only proceeding to the next having successfully completed the previous step and obtaining your approval to go further.

Particularly in the early stages, we will proceed on a meeting by meeting basis i.e. we may say to you, "Based upon what we have discussed today, we recommend getting together for another session shortly, to explore this in more detail."

Although it is difficult to be specific, a typical package of services going through to a successful purchase will involve the following:

- Review the financial statements provided
- Prepare 'What if' scenarios to provide an initial assessment of viability
- Prepare detailed cash flow projections, based upon an agreed 'What if' scenario
- Prepare a mini business plan to act as a finance application
- Provide you with a 'due diligence checklist' for you to follow up
- Advise on the appropriate legal structure
- Assist with registrations as required:
    - IRD number
    - GST registration
    - Employer registration
- Meetings, support, and telephone discussions throughout the process

Your investment with us

The fees you pay to us will depend upon the extent to which our services are required. We will provide you with estimates for each phase as we go.

Meetings

Initially, the fee will be for time spent in meetings together, which will be charged upon an hourly basis.

These meetings tend to range between one to three hours, with the fee ranging between $ to $ accordingly.

Going all the way

Should the process evolve into a package of services such as those outlined above, we will endeavour to provide you with a fee estimate midway through the assignment.

The likely range of the fee, including the meetings discussed above, is between $ and $.

If you have concerns regarding whether you can afford such fees:

- This raises serious concerns about the adequacy of your capital to start a business
- Consider what you have at stake - a large part of your financial future is on the line!
- Discuss your concerns with us - we want a relationship that is within your budget, yet gives us fair remuneration

Applying for Finance

Introduction

There are two main sources of finance to purchase the business - equity and debt.

Common practice is that there be at least part funding by debt - typically a bank loan.

This will require an application for finance to be made. How you present your application makes a great deal of difference as to whether you are successful.

What to include in a finance application

Applications vary from business to business. However, typically your package will consist of the following:

What to include	Notes
Short form business plan	A summary of what the business is, your plans for it and how you intend to compete in the market place. We can assist you with the sections to include.
Full business plan if required	We can assist you to prepare this
Financial details (application form)	Although some banks insist on their own form, a good place to start is the standard pro-forma we provide.
Cash Flow Projections	A 12-month (or greater) cash flow projection. This will be prepared by us in conjunction with you. It is important that this reflect how the business will service its loan commitments, provide for tax and pay its proprietors, whilst living within approved finance facilities.
Comments from your accountant	Endorsement from us as a third party is also an important factor in a successful application.

Vendor finance

An alternative to bank finance is to obtain finance from the outgoing vendor.

This is in effect where you take over the business under an arrangement to pay the balance of the price over time.

Although often difficult to obtain, it is nevertheless another aspect to include in your purchase negotiations.

Types of finance	There are many different types of finance, all with different purposes and taxation implications. The package we put together with you and your bank may include some of the following: ▪ Leasing ▪ Hire purchase ▪ Principal and interest (term loan) ▪ Interest only (fully drawn advance) ▪ Commercial bill
Taxation issues	How the finance is structured, the name in which the finance is arranged and who is making the payments all have a significant impact upon the taxation deduction that can be claimed. The security provided for the loan is not as relevant. It is important that the taxation implications of the financial package are explained in the planning stages.

Financial Details Application Form

Name				
Address				
Business Name				
Entity Type	☐ Company	☐ Partnership	☐ Sole Trader	☐ Trust
	Company Name (if applicable) ______________________			

Directors/Partners

Director/Partner
Name ______________________
Occupation ______________________
Age ______________________
Personal Address
____
____
____

Director/Partner
Name ______________________
Occupation ______________________
Age ______________________
Personal Address
____
____
____

Director/Partner
Name ______________________
Occupation ______________________
Age ______________________
Personal Address
____
____
____

Director/Partner
Name ______________________
Occupation ______________________
Age ______________________
Personal Address
____
____
____

Professional Advisors

Accountant ______________________
Phone ______________________
Business Address
____
____
____

Auditor ______________________
Phone ______________________
Business Address
____
____
____

Solicitor ______________________ Phone ______________________ Business Address ______________________ ______________________ ______________________	Any other professional advisor (please specify type of advisor) Additional Advisor ______________________ Name______________________ Phone ______________________ Address ______________________ ______________________ ______________________

Documentation

Please attach additional documentation to this application, if you have not already submitted it, for:

Company	***Partnership***
☐ Constitution ☐ Certificate of Incorporation	☐ Partnership Agreement

History of the business

Please attach a brief history of the business highlighting:

- Commencement date
- Annual sales - last three years
- Profitability - last three years
- Particular highlights in any year

Current loans

Please attach a summary of any current loans of the entity, including:

- The purpose of the loan. What is the money to be used for?
- The amount of loan sought, together with the requested draw down timetable
- the period the loan is required
- Full details of the security being offered should be included. Details to be stated would include:
  - Address of property
  - Real property description
  - Independent valuation
  - Comment on any other particular issues relating to the property - details of any tenancies, zonings, etc
- Repayment proposal
- A feasibility study should be prepared as to the utilisation of the borrowed funds and a copy of this should be enclosed

Business Plan

Please attach a copy of the business plan, including:

- Market analysis
- Marketing plan
- Budgeted profit and loss projections for the next three years
- Cash flow forecast for the next three years
- Taxation estimates for the next three years (based on budget estimates)

Note: the budget and cash flow forecast should be monthly for the first year and on an annual basis for the following two years.

Financial Statements and related documentation

Please attach copies of financial statements for the business for the last three years. Please also include:

- A statement of net worth of the applicant and associated entities. (Express assets at current values, rather than the historical figures included in the balance sheets)
- A statement of personal assets and liabilities of directors, partners, sole trader, etc
- A corporate chart for the entities within the business structure

Management

Please attach a management summary, including:

- A management chart, setting out the responsibilities allocated to individual members of the management team of the applicant
- A summary of how the business is managed including:
  - How often are interim financial statements prepared?
  - Who receives these statements?
  - Will a copy be made available to the bank or financier?
  - Are regular management meetings held? If so, how often?
  - Are regular Board of Directors' meetings held? If so, how often?
  - Are external consultants invited to participate in Board of Directors' Meetings? If so, who and how often are these meetings held?
  - How often do you intend to brief the bank during the year?

The Detailed Business Plan

"No business plans to fail – it simply fails to plan"

In the following section, we are going to take you through the process of preparing a plan for your business. While the main reason most people prepare a business plan is to raise finance, your business plan should not just be a tool for raising capital but a blueprint for your business' future. It should also be a way of checking the viability of your business venture.

The steps presented here are intended to form the groundwork for the planning process. If you are going to use this plan to raise finance, it is a good idea to get professional help from us, particularly with things like profit and loss statements and projected balance sheets. You will find however, that going through these worksheets first will save you both time and money in preparing your final submission. It will also help you in assessing the feasibility of your project.

The purpose of planning

Imagine if you engaged a builder to build a house for you and he turned up at your block of land and started unloading bricks and building material and then turned around to you and said, "OK. Where do you want the house?"

You wouldn't be very impressed, would you? Naturally, before he started building, you would want to see a plan. Just like building a house, your business needs a detailed plan.

The following section outlines the main components of a business plan.

Preparing a business plan to raise capital

If your new business venture is going to require finance, for instance a bank loan or overdraft facility, you must prepare a detailed business plan. Generally, banks and financial institutions will not even consider lending money without one. The more detail and accuracy you can project in your plan, the more chance it will have of being successful.

Raising finance for your business should not be a harrowing experience. If you thoroughly prepare and do your homework properly, you should be able to approach your financier with a sound business proposition that will be considered worthwhile for both parties. Remember, financial institutions make healthy profits from lending money on sound business propositions.

In the case of a business loan, financiers will be looking at your ability to service the loan and your net asset backing. These days they will also want to see some form of repayment plan for the loan as well. Your security takes the form of bricks and mortar (or other easily realisable assets) and they will usually require a mortgage or some form of charge over your assets to cover them in the event of your failure to meet your commitments.

Remember that small business failure rates are extremely high, and banks and other financial institutions are usually very cautious in their approach to lending in this area. Banks do not like the idea of selling you up, so even if you have the asset backing, if the business plan and the people behind it don't look sound, there is no guarantee your application will be successful. They will usually reject you in your own best interests.

See the next section for detail on what your business plan should include.

Existing business	If you are seeking to raise finance to purchase or extend an established business, you will need to include the following: ▪ Copies of the business' financial statements ▪ Copies of latest and previous tax returns and/or company returns ▪ A debtors and creditors analysis ▪ A copy of the business name registration or in the case of a company, the certificate of incorporation ▪ A complete listing of any stock you are taking over ▪ A detailed report on any plant and equipment you will be acquiring ▪ Any feasibility studies, market surveys or consultants' reports In the case of buying a franchise business, you will probably need to supply a copy of the franchise agreement or disclosure document.
Summary	After drafting your plan, review it in terms of completeness, objectivity, logic, presentation, and ability to communicate your proposal. It is recommended that you seek professional advice from us in the completion of your business plan.

Writing your business plan

Introduction	If you are starting a new business from scratch, your business plan will need to consist of at least these components...
Contents page	Details of what is contained in your plan
Executive summary	This should be the first document in your business plan but it is the last one you prepare. It should not be much longer than a page. It should simply summarise what your plan entails. It is intended to give a person reading your plan a broad overview of what you are setting out to achieve.
Business objectives	A detailed description of the business strategy and objectives, i.e. what you are going to do and your mission statement – in other words – what is the business of your business?
Product or service profile	A detailed description of the product or service you will be offering. If any machinery or equipment is involved, supply details.
Marketing plan	Marketing strategies, projections and sales forecast, including market analysis, supplying as much information as possible about the state of the marketplace you will be entering, details of competition, historical information on growth of the overall market, what area of the market you are aiming for, and any advantages or disadvantages you are likely to have over your competitors.
Financial plan	A detailed financial plan for the business, both short term (one year) and a longer-term projection (e.g. three years). Projecting beyond this is probably pointless, especially in a new business. Make sure that your forward projections are conservative. Don't just predict a 50% increase each year unless you can solidly substantiate it. You are far more likely to be taken seriously if you project a modest annual increase. List details of the capital required to both start up and run the business and a projected cash flow. Your plan should also detail the intended use of the capital you want to borrow. For instance, will it be used for working capital or for the purpose of acquiring plant and machinery? Give details. Indicate what assumptions have been made in arriving at any budget figures, e.g. assumes interest rates of 10% and an inflation rate of 4 percent. It is also desirable to have a projected profit and loss statement and balance sheet, especially if you are going to seek a substantial amount of money. These are complex documents, and you will probably need to seek our advice in preparing them.

Repayment of loan	Financiers are no longer simply concerned with whether you can service the loan. They want to see evidence that you are going to eventually repay the loan. Your business plan should include details of how and when you will repay your loan. Your repayment strategy should tie in with your cash flow projections. It could, for instance, detail regular monthly repayments of capital reducing the loan over time, or it may be reduced by lump sum payments as the business grows and becomes more profitable. It is unlikely that lenders will be very interested in proposals that simply want to borrow money with no indication or plan to ever repay it.
Security of loans and guarantees	Outline details of any assets which are going to be used as security. If you are going to use your home as security, supply details of any mortgages outstanding or any other encumbrances on any assets used as security. Remember that these days lenders are not just looking for adequate security. The project must first demonstrate that it is viable and that the interest and capital repayments can be discharged during the normal course of the business. Once this has been established, then the financier will turn to security. Financiers will not generally lend without adequate security and this is always assessed in a very conservative manner. Banks will normally nominate their own valuer to value your assets. Bear in mind they are usually conservative in their valuations and will often value your property at 20% or more below what you consider to be the 'real' market value.
Personal financial status	A personal financial statement of all the principals involved in the business, listing assets and liabilities and ongoing income streams.
An organisational plan	Outline of the management structure, responsibility, and accountability of office holders. (The people behind the business, what they do and to whom they will be accountable.) Details of the type of structure the business will operate under, e.g. company or partnership. List the names of directors and company secretary and location of the registered office, if a company. Also (if possible) supply details of any staff you may be hiring and their particular expertise.
Appendices	Any information or further details needed to back up or enlarge on any of the above, such as brochures, market research, press clippings, competitors' advertisements, statistics, evidence of any trade or professional qualifications, etc.

The Marketing Plan

Introduction

What is marketing? Basically, marketing consists of identifying the need for your project or service and then presenting the goods and services, at the right time, place, and price to satisfy the need. It also includes correctly identifying your potential customers and selecting the right advertising and promotional activities to make the market aware of your goods or services. In a nutshell, that's about it.

Sounds simple enough but getting it right can be difficult.

The SWOT Analysis

The first step in preparing your marketing plan should be to undertake what is known as a SWOT analysis. This is an acronym and stands for Strengths, Weaknesses, Opportunities and Threats. Take a sheet of blank paper and draw a line down the middle.

On one side, list your strengths and opportunities that are likely to present themselves. What is it about your product or service that makes it stand out from the crowd? List any unique selling features or benefits that you will have over your competitors. Are you personally well-known and respected by the marketplace? Are there any unique selling points? For example, you could be the only Chinese language-speaking carpet shop in the area.

On the other side of the line, list your weaknesses and any threats to the ongoing health and viability of your venture, e.g. limited capital, unknown in the marketplace, limited buying capacity, etc. Threats could be things like removal of tariff protection to allow cheap imports onto the market or changes to government legislation that could affect your trading and so on.

In compiling your SWOT analysis, list every strength, weakness, opportunity, or threat you can think of (no matter how obscure) and then undertake finer analysis later. This will be most useful in helping to produce your final marketing plan.

The 4 P's of marketing

Your marketing plan should be thorough and well-researched and is critical to your business success or failure. Your marketing plan should encompass all the aspects of your overall marketing strategy and can be best summed up by what is known as the 4 P's of marketing:

- Product and Prospects
- Price
- Packaging and Promotion
- Place

Really, it's 6 P's, isn't it? But it breaks down to:

- What are you going to sell and who are you going to sell to?
- At what price are you going to sell your product?
- How are you going to present it to the market and how are you going to promote your product?
- Where are you going to sell your product?

Legal Documentation and Structures

Documentation	This will typically include some or more of the following: ▪ Contract of sale; letters of offer ▪ Copy of the lease of the premises ▪ Restraint of trade agreement ▪ Shareholders agreement (if multiple purchasers) ▪ Franchise documentation Keep these filed in a logical sequence.
Setting up the right legal structure	This is an area which needs to be carefully discussed in order to find a solution appropriate to your needs. Aspects for your consideration include the following: ▪ **Taxation effectiveness.** Keeping the tax expense down and staying within the current rules ▪ **Asset protection.** Protecting your personal and business assets as much as possible from creditors and other litigants in the event that things do not go well ▪ **Business efficiency.** The last thing you want is a structure so unwieldy that day to day transactions are made difficult There are four main structures used to operate a small business: sole trader, partnership, company, or trust. The choice of the correct business structure can be of critical importance to the success or failure of the business. The type of business structure you choose will affect your taxation position, your personal legal liability, the life of your business, and the availability of capital to establish and operate your business. It is also wise to seek legal advice as to the relative initial cost and ongoing costs of each structure, whether you will have a need for limited liability, how your choice of structure will affect the availability of finance, and whether there is any specific legislation relating to the type of business you intend to operate.
Sole Trader	The position of the sole trader is generally the least tax-effective business structure because the taxable income of the sole trader includes the entire taxable income of the business. It would be better if the business income could be spread between more taxpayers so that as little income as possible is taxed at the highest marginal rate of 39%. The sole trader is personally responsible for any business debt or loss, and any creditor will therefore have the right to claim against the sole trader's personal assets (such as the family home) to enforce a right of payment. The operational life of the business is limited. When the sole trader dies, the business organisation will come to an end automatically unless otherwise provided for in a will. The sole trader's access to finance for establishing and operating the business is more limited than that of a company.

Partnership	One of the major advantages of a partnership is the possibility of income-splitting. Husband and wife partnerships are common. In a partnership, partners pay tax at the ordinary individual rate on their partnership income. A partnership is not a legal entity separate from the individual partners. The members of the partnership are personally liable for all partnership debts. Since partners are legal agents for each other, it is important to choose your partner or partners carefully. There is a presumption that partners will be jointly liable for contracts made by any one partner and that they will be jointly and severally liable for torts or any wrongful act committed by one partner. In certain situations, a Limited Partnership may be available. Limited Partnerships are a separate legal entity that retain the flow through tax treatment of a partnership. The terms of the partnership are usually set out in the partnership agreement or in the absence of an agreement the partnership is governed by the Partnership Law Act 2019. A partnership can be terminated or dissolved in several ways. Subject to a contrary clause in a written partnership agreement, the death or bankruptcy of a partner will automatically result in the partnership being dissolved. In certain circumstances, a partner can apply to the court for a winding up order, e.g. if one of the partners is of unsound mind, has been guilty of continuous misconduct, or if the business is continuing to run at a loss. Partnerships will generally have more limited access to finance than a company.
Company	A company is a legal entity which is separate from the people who own it (the shareholders). All companies are governed by the Companies Act 1993. Company directors have many statutory obligations and various common law duties and responsibilities under the Act.. They must act honestly and in good faith for the benefit of all the shareholders and must exercise care, diligence, and skill in performing their duties. If a company director breaches these statutory duties, he or she can be fined and/or sued by a shareholder. In general, company directors are only liable for the company's debts to the amount outstanding on their shares, or to the amount of any personal guarantee given by them. They can, however, be personally liable for the debts of the company, if the company continues to trade when it is insolvent.
Types of company	For tax purposes, three types of company structures exist for small/medium-sized businesses. These are: ▪ Standard Company ▪ Look-Through Company (LTC) ▪ Qualifying Company (QC) (now replaced by LTCs but QCs formed before 1 April 2011 may still exist) A standard company is taxed separately from its owners at the corporate rate of 28%. An LTC may be a popular entity for certain small enterprises because losses can flow through to a shareholder. However, profits of an LTC are taxed at the owners' marginal rates and not the corporate rate.

Trust

A typical trust has:

- A settlor
- A trustee, who is given wide discretionary powers about distributing income and assets among the various family members and power to carry on the business
- A trust deed, which includes a clause giving the owner of the business power to remove the trustee and appoint a new trustee. This power gives the owner of the business indirect control

Trusts are popular as a form of business structure because they are a flexible means of distributing income and assets and therefore provide some income tax savings by spreading the income among the trust members.

They are commonly used for family run businesses. Unless the trustee is a company, the trustee will not have limited liability.

Which Business Structure?

	Advantages	Disadvantages
Sole Trader	▪ Low costs of entry ▪ Easy to set up ▪ No big legal costs ▪ No separate tax return required ▪ No registration required (if using your own name)	▪ Personal liability for all debts ▪ May need to pay provisional tax ▪ When you die, it dies
Partnership	▪ Partnership itself does not pay tax ▪ Relatively inexpensive to set up and run although agreement needed ▪ Ability to split income	▪ Personal liability for all debts ▪ Liability incurred by other partners ▪ Potential relationship problems
Company	▪ Limitation of liability ▪ Some tax advantages ▪ Ability to change ownership through trading of shares	▪ Slightly more expensive to set up and run ▪ Separate tax and company returns required ▪ Stricter annual requirements, for example, to prepare minutes, file an annual companies return etc ▪ Higher establishment and ongoing costs ▪ It can be a lengthy process to dissolve a company ▪ Directors must understand and carry out their responsibilities
Trust	▪ Income can be distributed or paid out for the benefit of family members	▪ More expensive to set up and run ▪ Disgruntled relatives may sue later ▪ More complicated to administer ▪ Increased disclosure requirements

The above information is intended as a guide only and should not be a substitute for legal advice.

Unravelling the Legislative Requirements

Introduction	If you deal in goods and services, you need to be aware of statutory controls on marketing those goods and services.
Fair Trading Act 1986	The Fair Trading Act 1986 (FTA) protects the marketplace through promoting disclosure and prohibiting unfair conduct. 'Unfair conduct' includes: ▪ misleading and deceptive conduct (including any conduct likely to mislead or deceive). ▪ unsubstantiated, false or misleading representations, and ▪ unfair terms or practices (including collateral offers and coercion). The FTA also promotes product safety and safety of services. Non-compliant persons may be convicted and fined up to $600,000. Breaches may also attract civil penalties and other sanctions such as injunctions, compensation and banning orders.
Commerce Act 1986	The Commerce Act 1986 (CA) regulates competition for the long-term benefit of consumers in New Zealand. 'Restrictive trade practices' include: ▪ contracts, covenants, arrangements and understandings either intended or likely to substantially lessen competition ▪ cartel provisions either intended or likely to fix prices, restrict output or allocate markets ▪ abusing market powers by restricting, preventing, deterring or eliminating competition, and ▪ maintaining resale prices by conditioning supply on set prices. The CA establishes the Commerce Commission to investigate, manage and prosecute offences. Depending on the circumstances, the Commission may accept (and enforce) written undertakings or seek injunctions, pecuniary penalties up to $10 million and/or damages.
Consumer Guarantees Act 1993	The Consumer Guarantees Act 1993 (CGA) protects consumers by implying minimum guarantees as to all goods and services ordinarily acquired for personal, domestic, or household use. The CGA grants rights of redress against suppliers (of goods or services) as well as manufacturers (of goods). Remedies include repairs, replacements, and refunds. Whenever you review insurance cover, consider whether potential liability arising because of the Consumer Guarantees Act is covered appropriately.

Health and Safety at Work Act 2015

The Health and Safety at Work Act 2015 (HSWA), which came into force on 4 April 2016, has wide ranging implications for all those involved in the workplace.

HSWA sets out the principles, duties, and rights in relation to workplace health and safety. A guiding principle of HSWA is that workers and others need to be given the highest level of protection from workplace health and safety risks.

HSWA ensures that everyone has a role to play and makes everyone's responsibilities clear:

- Businesses have the primary responsibility for the health and safety of their workers and any other workers they influence or direct. They are also responsible for the health and safety of people at risk from the work of their business
- Officers (company directors, partners, board members, chief executives) must do due diligence to make sure the business understands and is meeting its health and safety responsibilities
- Workers must take reasonable care for their own health and safety and that their actions don't adversely affect the health and safety of others. They must also follow any reasonable health and safety instruction given to them by the business and cooperate with any reasonable business policy or procedure relating to health and safety in the workplace
- Other people who come into the workplace, such as visitors or customers, also have some health and safety duties to ensure that their actions don’t adversely affect the health and safety of others.

Employment Agreements

The relevant Acts here are the Employment Relations Act 2000 and the Holidays Act 2003. The very act of employing staff automatically creates legal obligations for both parties. These must be stated in writing. This provides employers and employees the opportunity to understand exactly what the rules are. An individual employment agreement must contain the following aspects:

- the names of the parties
- description of position and work to be performed
- an indication of where the employee is to perform the work
- the hours to be worked or an indication of the arrangements as to times worked
- the wages or salary payable
- the entitlement to time and a half for working on a public holiday
- the employee’s rights in contracting out situations
- in the event that the business is sold to a new employer, the process outlining both what will happen if the position will transfer to the new employer and what will happen if the position will not transfer or the employee chooses not to transfer to the new employer
- a plain language explanation of the services available for the resolution of employment problems, including a reference to the period of 90 days within which a personal grievance must be raised

Privacy Act 2020	The Privacy Act 2020 sets out 13 information privacy principles in respect of the following identifiable issues: ▪ collection of information ▪ storage and security of information ▪ access by the individual and correction of the information ▪ updating and disposal of information ▪ checking, use and disclosure of information, including the disclosure of personal information outside New Zealand ▪ the assignment, use and disclosure of unique identifiers. Businesses will need to be wary of sharing individuals' information with others. A breach may arise when information is shared for a purpose unrelated to the purpose for which it was obtained.
Emissions Trading Scheme	The Climate Change Response Act 2002 provides for the implementation, operation and administration of a greenhouse gas emissions trading scheme in New Zealand that supports and encourages global efforts to reduce greenhouse gas emissions. The Emissions Trading Scheme (ETS) is the price-based mechanism established by Parliament to: ▪ reduce net greenhouse gas emissions below business-as-usual levels ▪ comply with our international obligations, including our Kyoto Protocol obligations It involves all sectors, including agriculture and forestry. MAF administers the scheme for the forestry and agriculture sectors, in conjunction with the Ministry for the Environment and Ministry of Economic Development. Businesses involved in activities which come under the umbrella of the ETS need to familiarise themselves with the scheme and their obligations under it.
Other Legislation	The Resource Management Act 1991 was enacted to promote sustainable management of natural and physical resources. The Act provides that any use of environmental resources (air, land, or water) which may arise from taking the resource, or discharging into it, requires that a resource consent is in place.

Enhancing the Chances of Business Survival

5 Must Haves	Our advice to any client seeking to establish a small business covers five ‘must have’ personal qualities and resources. ▪ A commitment to hard work and personal sacrifice ▪ Enthusiasm, tenacity, and the appropriate level of self confidence ▪ A product, skill, or service which is marketable ▪ Managerial, administration and marketing skills ▪ Adequate personal financial resources
Why do businesses fail?	Many people contemplate the leap into small business to simply ‘buy a job’ - our advice in these circumstances is generally - DON’T! For all the rewards of being your own boss, many things taken for granted as an employee will disappear: job security, set hours of work, known and guaranteed income, holiday and sick pay, and long service leave. Business start-up statistics in New Zealand are worth considering. About 10% of all small businesses which fail are in their first year and some 70% will fail in the first five years of operation. While the reasons for business failure are many the most common appear to be: ▪ Poor management ▪ Sloppy records ▪ Stock – too much, or too little ▪ Failure to plan ▪ Misuse of time ▪ Neglecting marketing ▪ General management incompetence Excuses for business failure are too often levelled at ‘business climate’, finance costs and difficulties, demand slumps, and regulations. But where were the five ‘must haves’?
Business survival	Well managed businesses will: ▪ Weather economic and business storms ▪ Have proper financial information ▪ Use a written business plan with future development and expansion guidelines ▪ Have an adequate product mix ▪ Not rely too heavily on one, or a limited group of customers or clients ▪ Know their operating environment
Is the business right for you?	With the signs for business survival in mind, work through the checklist of issues to consider for buying the business you have in mind.

Reading the signs for business survival

Introduction	There are many signs on the road to failure and if these are addressed then survival is more likely to be assured.
Insufficient capital	Insufficient capital makes it difficult to purchase stock and materials which in turn means lost sales. Invariably the business will fail to meet its commitments as they fall due.
Partnership problems	Partners should be selected in the same way as employees are selected – that is, based on their ability to contribute effectively to the business and help achieve its goals. Too often a partner is selected simply because he or she is a relative or friend or is willing to contribute an amount of capital.
Lack of management expertise	A detailed business plan is essential, not only to raise capital but to act as a blueprint for your business' future growth. Make sure you have the necessary expertise in your chosen business field; don't think you can get away with learning on the job.
High gearing	Borrowing excessively means a greater portion of gross profit is directed towards finance costs. Cash flow is also drained by repayments.
Incorrect pricing policies	Too often prices are set to market determinants rather than to cost recovery and profitability generation. Efficient service or added value may be more important than price alone. Unless you can make an adequate margin of profit, you are doomed to failure.
Marketing	Many small businesses go broke simply because they don't sell enough product or they fail to keep abreast of market, operating and technological changes. In business, nothing is constant. You must continually update your product or service to stay in tune with market demands.
Cash flow	Any business that fails to forecast its cash flow appropriately is headed for trouble. Without proper and accurate cash flow projections, management is unable to identify future cash requirements and hence lacks vital information about the financial direction of the business.
Budget	Cash flow alone is not enough, the business must be returning a profit. The long-term trend of both must be positive. Ideally each business should have a budget showing expected future income and expense levels and the minimum return to the owner.
Breakeven point	It is vital for each business manager to know the point at which the business will break even. This is the point at which the gross margin (revenue less direct costs) equals total fixed costs.

Turnover	Any additional turnover will result in a profit equal to the gross margin on this turnover, and any reduction in turnover will result in a loss, as all fixed costs are not met.
Cash flow projections	Knowing these revenue levels and monitoring them regularly will equip the owner to know from month to month how his or her business is performing. Low profit months will generally impact on cash flow in the current and following periods. The ups and downs in turnover will usually be mirrored in cash flow projections. Hence the importance of the interaction between profitability and cash flow projections.

Buying a Business – Issues to Consider

	Issues	Notes	✓
	Sales		
1.	Is the product or service likely to maintain or improve its marketability or is it in danger of becoming over-sold, out of style or obsolete?		☐
2.	Is the business in a good location or is this the reason why it is for sale?		☐
3.	Are prices competitive? Are competitors gaining strength?		☐
4.	Are all sales in reliable records? Are the total sales broken down by product line, if applicable?		☐
5.	Are bad debts deducted from sales, or are they still shown as receivables? Is the percentage of bad debts acceptable according to industry standards?		☐
6.	What is the sales pattern year by year and month by month? Is the pattern seasonal or related to some business cycle (such as home construction or other uncontrollable variable)?		☐
7.	Are some goods on warranty? If so, will a financial allowance be made for possible warranty commitments?		☐
8.	Are some fluctuations in sales due to lucky one-shot sales?		☐
9.	Is a particular salesperson critical to success? If so, will you be able to retain that person in your employment?		☐
10.	Is the seller's personal role critical to success?		☐
11.	Are you sure all sales are for the business and the seller hasn't added sales from another business? Are you sure that the rate of stock turnover is in line with the industry practice? Are you sure that the existing stock does not include slow moving items from another business?		☐
12.	Will you be able to continue buying the products from existing suppliers?		☐
13.	Can you increase sales with current resources?		☐
14.	Are new developments going to be commenced or opened in a nearby location which could affect your trade?		☐

15.	Is the industry in which the business operates – expanding, contracting, or remaining static?		☐
16.	What are the unique selling propositions of the business, that is, what does the business offer that is unique?		☐
17.	What is the product sales mix, that is, the number and value of sales by product or by customer?		☐
18.	Do a small percentage of customers represent a large percentage of sales?		☐
	Costs		
19.	Are all expenses shown? Will you as a new owner have the same level of expenses?		☐
20.	Is there a chance the owner has paid expenses through another business?		☐
21.	Has the owner avoided some expenses that could be delayed such as equipment maintenance? Will you pay for poorly maintained plant later?		☐
22.	Are there annual expenses coming due soon?		☐
23.	Are there new or increased expenses you should anticipate?		☐
24.	Is an adequate salary allowed for work done by the owner and his family in addition to an adequate profit margin?		☐
25.	Is interest paid for money loaned to the business?		☐
26.	Is depreciation claimed for the equipment and if so is it reasonable (particularly for the price you'll be paying)? Is it based on an accounting or tax viewpoint?		☐
27.	Have you checked the terms and conditions of the lease and discussed these with your solicitor?		☐
28.	What effect would decreased or increased sales have on your costs?		☐
29.	What expenses do similar businesses have?		☐
30.	Do you know what costs are allocated to which product, and how a change in product mix would affect costs?		☐
31.	Are some expenses prepaid by the seller? Will you have to reimburse the seller for your share?		☐
32.	Has inventory been accurately shown at true current value, for calculating actual cost of goods sold?		☐

33.	Are the staff adequately paid, or do they expect wage increases soon?		☐
34.	Are staff paid based on current industry conditions?		☐
35.	Which party is responsible for previously accrued entitlements on long service leave, holiday pay, superannuation, and other benefits to employees?		☐
36.	Have you looked at the effect of increased or decreased sales on profit?		☐
37.	Do you know the minimum likely sales? The maximum likely?		☐
	Profits		
38.	Have you considered what effect inflation will have over the years to come? (on sales? on costs?)		☐
39.	Are profits adequate to warrant taking the risk?		☐
40.	Have you analysed the financial records for the last three years including balance sheets, profit and loss statements, tax returns, purchases and sales records and bank statements? Have the records been well kept?		☐
41.	Based on past financial results have you projected the future cash flow and profitability of the business? What is the breakeven point?		☐
42.	Do you know exactly what you are buying and not buying? Are there lists and have you checked them?		☐
43.	Are some goods just on consignment, with the right of being returned for full credit?		☐
	Assets		
44.	Has any inventory been sold but not shipped?		☐
45.	What is the book value, the market value and replacement value of the fixed assets? Which will you pay?		☐
46.	If inventory or work in progress is to be included, has a value been agreed upon at the time of offer? Have you agreed on how it will be adjusted at time of closing, and within what limits?		☐
47.	Have you decided what intangibles you want – mailing lists, business name, exclusive rights, leases, etc? Can they be transferred?		☐
48.	If you need new licences do you know what is required to get them?		☐

49.	Are you buying the accounts receivable? Do you have a listing of these accounts by age? Has adequate provision been made for doubtful debts?		☐
50.	For what value could you sell the accounts receivable to a factoring agency (bank or finance company)?		☐
51.	Is the equipment in good repair? Is it efficient?		☐
52.	Is it in danger of becoming obsolete or difficult to service?		☐
53.	Could it be sold easily?		☐
54.	Is any equipment leased?		☐
55.	Do you know the terms and the cost of each lease?		☐
56.	Will you get ownership on maturity? What is the residual value?		☐
57.	Will you have to build up your own accounts receivable? Have you figured out how this will affect your cash flow?		☐
58.	If the business is a limited company, are you buying the shares or the assets? Be sure to consult a lawyer or accountant on this point.		☐
59.	Have you consulted your accountant on how to value the various assets for the best tax advantage?		☐
60.	Are the assets you're buying free of debts and liens? Have you checked this out carefully? If you are assuming some debts, do you know the exact terms of repayment? Is this in writing?		☐
61.	Are there any contingencies such as warranties, court actions or guaranteed debts or accounts? Are you assuming any risk of being liable for the previous owner's actions (as might happen when buying a limited company)? Will you be expected by customers to make refunds or warranties, even though you're not legally obliged to do so, or risk losing their goodwill?		☐

	Liabilities		
62.	Has the previous owner received any payment in advance – deposits, etc which he or she should turn over to you?		☐
63.	Have you checked the business' credit rating with suppliers? Will you receive an established rating (or be treated as a new account)?		☐
64.	If buying part of a company or entering a partnership do you know what limits there are on one person making a commitment on behalf of the business?		☐
65.	Will your cash flow from operations be enough to pay your debts?		☐
66.	Do you know the real reason why the business is for sale?		☐
67.	Is the seller being co-operative in supplying the information?		☐
	The Seller and You		
68.	Is the seller willing to sign a non-compete agreement (Restrictive Covenant)?		☐
69.	Will the seller train you and assist you after purchase, and for how long?		☐
70.	Is this the type of business you were looking for?		☐
71.	Is the type and size of business compatible with your interests, experience, personality, and capital?		☐
72.	Are you ready to negotiate? Remember a business is worth no more than the highest price someone will pay or no less than the lowest price the seller will accept.		☐
	Legal		
73.	Have you consulted a legal representative in regard to the terms and conditions of any applicable lease agreement and your obligations and rights under that agreement?		☐
74.	Are you responsible for any corporate body expenses related to the business?		☐
75.	Has a recent change in the landlord taken place? This could point to such things as an impending increase in lease payments or possible redevelopment proposals?		☐

76.	Does your solicitor's search reveal that no notices regarding health, water and sewerage or other government requirements have been served on the business requiring work to be carried out?		☐
77.	Has a rezoning application been lodged regarding either the intended business location or nearby locations?		☐
78.	Are major road developments or public works going to proceed soon, which may affect your business?		☐
79.	Do you understand your obligations under the intended business legal structure? You should consult a solicitor/accountant in this regard.		☐

Completed by: ______________________ Date: ______________________

Reviewed by: ______________________ Date: ______________________

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