

Preparing a Business for Sale

The following checklist has been pretty much copied from a document prepared and kindly provided to Hornbeam by PKF Chartered Accountants

Selling your business can be the most important transaction of your life. Getting the best price can make a massive difference to your finances. There is much that you can do to make a business easier to sell and more valuable. It is worth putting in the effort. So although readers may find the English dry and heavy with jargon it is worth persevering. This list is full of good ideas.

Review of maintainable earnings

Sales	Can pricing policy be improved (e.g., aggressive pricing of products in new markets may no longer be required – check product life cycles)?
	Sales recognition policy industry norm?
	Where possible, formalise trading contracts if trading relationships are currently on informal practice basis.
Cost of sales	Any prospect of improving prices obtained?
	Any growth expenditure incurred (e.g., marketing campaign) unnecessary to maintain business?
	Any synergies possible in, e.g., bulk-buying or warehousing on disposal to particular parties?
Administrative expenses	Depreciation policies in line with industry norms?
	Research and development cost recognition policy in line with industry norm?
	Head office costs – synergies possible?
	Investment costs (e.g., developing new offices)?
	Abortive costs (e.g., planning permissions denied)?
	Family retainers and other non-business expenses?
	Non-recurring costs – review professional fees.
Provisioning policies	Check not overly prudent.
Interest charges	Any reduction in financing cost after acquisition by larger party?
	Consider finance lease charges.
Drawings	Any effective drawings from business taken as expenses?
Effective tax rate	Rationalise if high (see tax review below).

Balance sheet review

Property	Obtain current revaluations (the cost of which may be regarded as a non-recurring expense!).
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Consider delaying replacement if synergies expected on sale.

Remove non-trading assets.

Working capital Review debtor and creditor controls both to emphasise strong management systems and possibly to reduce bad debt expense; consider factoring if appropriate.

Management and employee review

Structure Ensure strong management structure clear.

Consider position of owner-manager – strengthen second-tier management if entrepreneur is to depart, consider entrepreneur taking pre-sale holiday to allow management to prove themselves or at least ensure that their contribution is recognised.

Reorganisation Identify any cost savings to be made on post-sale synergy.

Identify any redundancy costs (either already incurred or necessary to achieve synergies).

Tax review

Compliance Ensure all corporation tax, VAT and PAYE compliance is up to date – consider settling matters at a cost in order to remove any issues which may be blown out of proportion by acquirer in negotiation.

Consider appropriateness of claiming of reliefs (e.g., capital allowances) – tax deductions/losses delayed until post-completion may be of increased value to purchaser if, e.g., group relief is possible in acquiring group.

Structure Ensure tax structure efficient (e.g., possibly starting up foreign operations as branches when losses may be recognised in UK rather than marooning losses in overseas' subsidiaries).

Legal review

Statutory filing Ensure up-to-date.

Articles/vendor agreements Ensure no problems in completing a disposal.

Trading contracts Review terms, durations and enforceability, particularly continuation on change of ownership.

Software rights Ensure clear ownership and no disputes.

Trademark and patents Ensure registration and remaining periods.

Employment Review terms of directors' service contracts and employees' contracts of employment.

Litigation Ensure review undertaken of existing and potential claims, including any from employees.

Environmental concerns	Ensure review undertaken.
General legal/regulatory concerns	Ensure target in compliance with data protection, consumer credit and other legislation and regulatory requirements applicable to its business.
Health and safety concerns	Review health and safety policy and records.
Insurance	Review existence of adequacy of insurance cover.