Business Purchase Checklist

Questions to work through before buying a business. Tick each one when it is done and note what you found. Not every item applies to every purchase.

Buying a business with a loan from Community Futures Shuswap? Bring this checklist to your first meeting with us. We recommend you also involve an accountant and a lawyer.

Business being purchased	Your name	Date

A · Understanding the deal

	CONSIDERATION	COMMENTS
☐	1. Get a complete description of the business.	
☐	2. Is this an asset deal or a share deal — what exactly is being bought? a) If an asset deal, get the list of assets being purchased. b) If a share deal, get a description of the shares being acquired.	
☐	3. If this is not a complete business, what else is needed before it can open?	
☐	4. Who is the vendor, and why are they selling?	
☐	5. What is the purchaser's strategy for the business?	
☐	6. Have the purchaser and vendor struck a deal? If so, what are the terms (for example, a letter of intent)?	

	7. Has the purchaser sought professional advice? Who are the advisors?	

B · Information you need

	CONSIDERATION	COMMENTS
	1. The three most recent years of annual financial statements, preferably prepared by an accountant.	
	2. Interim financial statements for the period since the last year end.	
	3. The most recent income tax returns — corporate if the business is incorporated, personal if not.	
	4. Major contracts and agreements.	
	5. An organization chart, or a list of employees.	
	6. A description of the assets: age, serial number, value.	
	7. The vendor's financial projections and budgets.	
	8. Aged receivables and payables.	

C · Earnings

	CONSIDERATION	COMMENTS
	1. Review the historical earnings and adjust them, looking forward, for these normalizing items: a) Pay of the owner or manager b) Non-arm's-length transactions — rent, use of equipment, personal expenses c) One-time charges that will not recur d) Interest expense e) Normal bad debt expense f) New or lost major customers	

D · Net asset value

	CONSIDERATION	COMMENTS
	1. Calculate the adjusted net asset value of the business being acquired, starting with shareholders' equity or net book value, and taking into account: a) Differences between book value and fair market value for equipment, furniture, fixtures and other assets b) Assets or liabilities included but not being acquired c) Assets or liabilities not included d) Expected changes to financing, such as additional loans e) Intangible assets — goodwill, intellectual property, patents	

E · Revenue

	CONSIDERATION	COMMENTS
	1. The 80/20 rule: who are the major customers?	
	2. Get measures of sales volume — meals served, litres pumped, labour hours charged.	
	3. Find the number and dollar size of sales per day, week and month.	

	4. Review monthly sales for a seasonal pattern. What does it mean for cash flow?	
	5. Were there significant new or lost customers in the past year?	
	6. Get summary sales, and possibly gross profit, by product line or service.	
	7. Where do the key customer relationships sit? Why do customers bring their business here?	

F · Other considerations

	CONSIDERATION	COMMENTS
	1. The place of business: what are the terms for staying there?	
	2. Who are the key employees, and what will it take to keep them after the purchase?	
	3. Who are the critical suppliers, and what will it take to keep the supply coming?	
	4. Who are the competitors, and what are their strengths and weaknesses?	
	5. Are there opportunities to grow? How will the purchaser take them, and what will it take — money, people, new products or services?	

	6. Can any savings or synergies be identified and quantified to justify the price?	

G · Projections

	CONSIDERATION	COMMENTS
	1. What does the first year look like? Anything past the first year is much less certain.	
	2. Are there cash flow crunches when more financing may be needed?	
	3. How much new investment will be needed, and when?	
	4. Can the purchaser afford to live — leaving enough earnings and cash in the business?	
	5. What is the downside scenario? How bad is it?	
	6. How sensitive are the projections to the major risks? What are the contingency plans?	

H · Financing

	CONSIDERATION	COMMENTS
	1. Can the business carry the planned debt and its other obligations?	

	2. Is the level of debt right for the business?	
	3. Is there room to cope if things go badly?	
	4. Have arrangements been made with existing lenders for after the purchase?	

I · Valuation and price

	CONSIDERATION	COMMENTS
	1. Decide on the right method for valuing the business.	
	2. Assess goodwill — should there be any?	
	3. Do the calculations, or work the value back from the asking price.	

J · Terms of the deal

	CONSIDERATION	COMMENTS
	1. If the deal is all cash, can part of the payment be deferred?	
	2. Will the vendor take back any financing as part of the deal?	

3. Has an earn-out been considered?	
4. Are non-competition agreements needed?	
5. What representations and warranties are needed?	
6. How will the vendor support the transition?	
7. If there are partners or shareholders, are agreements in place?	

K · Due diligence

CONSIDERATION	COMMENTS
1. Consider the quality of the financial statements and other information: a) Out of date, or recent? b) Prepared by a qualified accountant, or internally? c) Is there a risk of misstatement — cash sales, inflated costs? d) Detailed information, or summary data only? e) Any sign of different sets of books, for tax and for selling the business?	
2. Search the Personal Property Registry and do other corporate searches.	
3. Ask around about the vendor's business reputation.	

	4. Do your own research — for example, watch the customer traffic.	
	5. Talk to customers and suppliers.	