

Due Diligence Review Contents

1. Business structure	1
1.1 Sales and marketing	1
1.2 Production and purchasing	1
1.3 Management and employees profile	2
2. Trading results	3
2.1 Underlying accounting policies and bases	3
2.2 Past trading results	3
3. Capital employed	4
3.1 Segmental analysis of net assets	4
3.2 Property, plant and equipment	4
3.3 Intangible assets	5
3.4 Stocks and work in progress	5
3.5 Debtors	6
3.6 Creditors	6
3.7 Provisions for liabilities and charges	6
3.8 Taxation	6
4. Other matters	7
4.1 Accounting systems and management information	7
4.2 Contingent liabilities	7
4.3 Other matters	7

1. Business structure

Throughout this document, the information requested has been categorised as being imperative (I) or desirable (D) in the completion of the due diligence review.

1.1 Sales and marketing

Analysis of sales by product, by major customers and by geographical market	I
Analysis of any seasonal or cyclical features	D
Details of contracts with significant customers	I
Channels for distribution (eg direct sales, representatives, wholesale, retail)	I
Nature of relationship between the organisation and its selling agents, including terms of appointment and remuneration, systems for remitting proceeds	I
Strategic alliances	I
Extent of computerisation of sales/marketing and customer service and their integration with accounting and management information systems	I
Future plans, proposed new products, research and development	D
Particulars of any major contracts unfulfilled, and the extent to which The organisation is involved in fixed price and long term contracts	I
The basis used in fixing selling prices; gross profit contribution percentage expectations; and the extent and rationale for sales price discounting	I
Particulars of any product service agreements or guarantees or warranties	I

1.2 Production and purchasing

1.2.1 Production

Production statistics/summaries for the previous three to five years	I
Estimated capacity of the factory; efficiency of equipment	I
Factory/equipment utilisation statistics/summaries	I
Nature and amount of work subcontracted to outside firms; the reasons for this policy; risks to the company from failure of subcontractors; scope for further subcontracting	I
Extent of computerisation of production control and its integration with accounting and management information systems	I
Basis of stock costing, ie activity based costing or just-in-time manufacturing processes	I
Particulars of fixed and variable costs in the total unit cost of manufacture	I
The effect of any, or prospective, environmental controls on the production process and products	I
Details of any special trade agreements, including ownership and use of intellectual property such as trade marks, know-how etc	I

1.2.2 Purchasing

Raw materials used; principal suppliers and their origin	D
Strategic alliances and the extent of any price subsidisation	I
Terms of purchases, including discounts obtained; whether prices are comparatively stable or volatile	I
Any significant forward purchase commitments; lengths of lead times for delivery of significant components or raw materials; use of just-in-time procedures	I
The supply position of raw materials generally; any difficulties experienced in the past in obtaining requirements either from its regular suppliers or from alternative sources	I
If purchases are made from foreign concerns, the rate of import duty, time taken for delivery and any special settlement terms	I

1.3 Management and employees profile

1.3.1 Management

Key personnel - name, age, position held, years of service, qualifications and experience before joining The organisation	I
Present salaries and other forms of remuneration, benefits in kind, performance related remuneration arrangements	I
Details of any service agreements and superannuation schemes	I
Degree of involvement in the business, regularity and format of formal management meetings and other meetings of senior management	I

1.3.2 Employees and staff

Number of employees at each main factory and office analysed by departments, full-time/part time, male/female	I
Approximate present salaries/rates of pay, analysed by function; holiday pay arrangements; severance, industry redundancy and retirement pay entitlements (statutory and voluntary requirements)	I
Details of any recent pay awards or wage agreements which would affect future costs; labour relations, strike experience and other disturbances	I
Superannuation scheme arrangements; profit related bonuses; etc.	I
Welfare services (canteens, change room facilities etc)	D
Training facilities/programs	D
Recruitment policy and general availability of labour; staff turnover	D
Details of productivity, morale and commitment; employee attitude surveys	I
Level of workers compensation premiums paid and claims history	I
Balance of current employee entitlement liabilities accumulated	I

2. Trading results

The following information required should cover the previous three to five year period.

2.1 Underlying accounting policies and bases

Details of accounting policies and practices, their appropriateness and any changes during the previous three years	
Any particular accounting, financial reporting or disclosure requirements or practices associated with the industry	
Compliance with accounting standards and the law and consistency of application	

2.2 Past trading results

Sales - levels, trends, long term contracts; appropriate analyses by product, market and geographical location (by origin and destination, if different) and major customers; commission deducted, special discounts; extent of sales between segments in the analyses provided	
Other income - details of royalties, management and technical fees, service fees, rents, interest receivable	
Cost of sales - analysis of material, labour and production overhead costs. Review of standard or other costing procedures, accuracy of management accounts and integration of variances	
Gross profits - analysis by product, geographical location, division, branch, percentage margin on sales, explanations for variances in margins, method of spreading profit on long term contracts. Sensitivity of gross profit to selling price changes, and to price changes of major material and other input costs	
Overheads - analyses by expense type, trends	
Depreciation and amortisation - bases, rates, treatment of grants, effect of any revaluations	
Interest and other costs of borrowing - income gearing	
Extraordinary and exceptional items - details of past items	
Intra/inter-company treatment of profits and charges	
Related party transactions - extent and effect on results of transactions with any businesses connected with shareholders or management	
Basis of allocation of central overheads	

3. Capital employed

3.1 Segmental analysis of net assets

An analysis of net assets by class of business and geographic location on a basis compatible with the analyses of sales and gross profit.	I
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3.2 Property, plant and equipment

3.2.1 General matters

Summary of cost and depreciation of main categories, (including any assets on finance leases)	I
Comparison of depreciated historical cost amounts and revalued amounts	I
Basis adopted of providing for depreciation/amortisation of each main category	I
Adequacy of depreciation rates used	I
Any changes in the bases or rates used for providing depreciation	I
Apparent state of maintenance	I
Comparison of net book values and tax written down values of assets eligible for capital allowances	I
Capital commitments at the balance sheet date and details of any significant individual orders placed since	I
Insured values and terms of cover	I
Treatment of grants for capital expenditure	I
Any contingent liabilities for repayment of grants on change in ownership of the business	I
Basis for capitalising own labour, materials and production overheads	I
Physical verification of individually significant assets	I

3.2.2 Land and buildings

Description of main premises; types of construction; freehold or leasehold; if leased particulars of leases (including dilapidation clauses, options to renew, rent reviews); general condition and deferred repairs	I
The location of factories, administrative, computing centres and selling offices or depots	I
Details of any professional valuations (including date, name and qualifications of valuer and basis of valuation)	I
Any planning restrictions or approvals for developing the present sites	I
Restrictions on accessibility to road, rail, air, sea, canal or river transport facilities	I
Details of any specialised land and buildings which are of a size, design, arrangement or geographical location which would make alternative use or	I

sale or valuation difficult	
Any land and buildings subject to environmental problems	I

3.2.3 Plant and other equipment

Description of the main categories of plant and equipment used	I
Physical location of plant and equipment	I
Age and apparent condition of the plant	I
Age and condition of computer equipment	I
Any plant not used or obsolete; technological obsolescence	I
Details of any recent revaluations	I
Major plant on order, where from, expected delivery dates	I
Company cars, arrangements for private use	I
Other computerised operational systems and their integration with accounting and management information systems	I
Details of any equipment specifically designed for its present use which would make alternative use or sale or valuation difficult	I
Level of spare parts held	I
Details of plant and equipment surplus to current production or operating requirements	I

3.3 Intangible assets

Particulars of important brands, patents, trade marks, designs, and details of registration and life	I
Details of any research and development costs capitalised and amortisation period	I
Basis adopted for writing off the capital cost of intangibles	I
Details of goodwill; how acquired, cost, period of amortisation, amounts eliminated against profits/losses or reserves	I

3.4 Stocks and work in progress

Stock holding policy	I
Details of basis adopted for valuing stocks, especially the inclusion of overheads	I
Long term work in progress and basis for taking profit	I
Methods used in arriving at stock quantities; adequacy of cut-off procedures	I
How stock quantities have been verified and particulars of procedures in force	I
Methods adopted for providing for slow-moving and obsolete stocks; adequacy and consistency of provisions; lower of cost and market value test	I
Rate of turnover	D
Methods of stock control and details of when the last physical inventory was undertaken	I

3.5 Debtors

Approximate number of accounts; details of any major balances	I
Analyses between domestic and export debtors	I
Standard terms of sale; sale or return or reservation of title arrangements; credit terms; details of discount policy; average debtor days	D
Credit control methods; credit insurance and debt factoring arrangements	D
Age analysis of debtors	D
Details of the bad debt provision and bad debt experience; analysis of any disputes	I
Details of other main debtors and prepayments	I
Review sales cut-off procedures	I

3.6 Creditors

Approximate number of trade accounts; details of larger balances	I
Names of main creditors	D
Usual period of credit allowed/taken; whether this has been normally adhered to over the period covered in the report	I
Analysis of other major creditors and accruals; deferred income	I
Lease and hire purchase agreements	I
Guarantees, contingent liabilities, litigation pending	I
Details of provisions included within creditors	I

3.7 Provisions for liabilities and charges

Details of unfunded superannuation commitments; bases of providing and of funding	I
Analysis and basis of provisions for future costs, eg warranties and guarantee costs; past experience of warranty and guarantee costs	I
Details of any other provisions	I

3.8 Taxation

Particulars of important matters in dispute; tax audits; potential problems for periods not yet agreed	I
Extent to which tax planning schemes, or other unusual arrangements have been used in the past and assessment of any resulting potential exposure	I
Review of status of sales tax and other indirect taxes (including details of last audit by taxation authority)	I
Other tax related arrangements: employment taxes eg PAYE/NI (including details of last audit/investigation by taxation authority)	I
Details of any other significant tax issues	I

4. Other matters

4.1 Accounting systems and management information

Nature of accounting records and equipment used to maintain them; whether kept up to date; general reliability and efficiency; scope for computerisation; manual of accounting instructions;	I
Nature of management information, budgets, management accounts, interim accounts, etc	D
General outline of any costing system in use, integration with financial accounts, adequacy and reliability	D
Effectiveness of management communication; policy manuals; operating instructions; liaison committees; office circulars; house journals; staff meetings	D
Number of staff engaged in accounting functions	I
Short and long term software and hardware plans; information technology (IT) strategy, security and risks; ascertain how much has been spent on information systems in the past and expected to be spent in the future	I
Organisation of IT function; hardware and software	I

4.2 Contingent liabilities

Details of any litigation taken against The organisation in the last five years and the outcome of such actions	I
Details of any unresolved litigation actions	I
Guarantees, performance bonds, etc.	I
Environmental protection: compliance with legal requirements, investigations carried out, possible site pollution, local complaints, production processes and products	I

4.3 Other matters

Computer contingency and business continuity planning undertaken	I
Material contracts in the past two years other than in the normal course of business	I
Summary of any related party transactions or arrangements	I
Regulatory requirements	I
Review of company's statutory books and minutes of general meetings and directors' meetings for any significant matters not discussed elsewhere	D