COMMON SALE ISSUES

Customers

- High dependency on key customers represents significant revenue risk
- No or limited established customer contracts, therefore risk in revenue stream shifting to competitors.

Suppliers

- High dependency on key customers is a risk in sourcing supply if there was an issue with a key supplier
- No or limited established supplier contracts in place.

Inventory

- Limited established systems and processes over inventory control
- Regular stock takes not conducted, reducing reliability of inventory figures
- WIP and inventory not monitored correctly, resulting in significant fluctuations in gross profit numbers
- Job costing systems not set up properly to capture required information
- Employees not recording time and materials accurately to a job, resulting in incorrect job costing numbers
- Obsolete inventory held in the business and not written off.

Accounting system

- Limited established accounting systems and processes in place, which reduces the reliability of results, eg regular reconciliations not performed
- Reporting generated does not capture cash flow and depreciation effects as operating assets are held in separate entities and no consolidation of accounts prepared
- Company underwent a series of consolidations, but each entity acquired was not integrated into the accounting system and no consolidated accounts were prepared
- Revenue recognition policies not recorded in line with adopted accounting policies. Revenue recorded before actually being earned, increasing profits
- Consistent accounting policies haven’t been adopted throughout the period, eg revenue recorded on a cash basis, then shifted to an accruals basis
- Monthly accounts don’t add up to the statutory accounts, reducing reliability of data
- Separate recording of volume and price of goods and services not prepared, making it difficult to dissect revenue movements
- Accurate budgets not prepared and variances to budget not monitored
- Forecast data represented significant growth not in line with historical trends.

Operational

- Capital expenditure underinvestment to strip cash flow out of the business
- Capital expenditure overinvestment before sale, funded through loans, which owner expects new owner to take over
- Payment of dividend funded through loans, which owner expects new owner to take over
- Inadequate insurance

Operational (cont.)

- No lease over the premises
- No employee agreements for key personnel which represents a risk of key personnel going to competitors
- Significant dependency on a key person with no action plan to remove dependency on key person.

Tax

- Tax liabilities not paid up to date, a sign of cash flow problems
- Statutory accounts and tax returns not lodged in a timely manner; suggests established systems and controls are not in place
- Company exceeds payroll tax threshold but no payroll tax paid.

Financial statements

- Significant private expenses, income in the financial statements which need to be removed from accounts
- Add backs made to profit on basis of being private expenditure, but no FBT paid
- Wages paid not representing market wages, which will require adjustment
- Family members not working in the business but receiving a wage
- Significant fluctuations in monthly accounts due to inappropriate systems to capture inventory. Inventory items expensed as purchased, which doesn't match revenue with the cost of sales.

Trade debtors and trade creditors

- Trade debtors and trade creditors not recorded on the balance sheet
- Significant monthly fluctuations in trade debtors and trade creditors as amounts not monitored properly
- Aged debtors balance shows significant amount of debtors of more than 90 days due to inadequate debt collection procedures.