

JPAbusiness Due Diligence Checklist

As business advisors, the JPAbusiness team **provides financial and commercial due diligence** for clients considering business purchases and we often **coordinate the legal due diligence** with our clients' solicitors.

On the following pages you will find questions to consider when conducting your own financial and commercial due diligence, or when discussing the process with your advisors.

Legal due diligence can be a very detailed undertaking, so for the sake of brevity we have included a much-simplified legal due diligence checklist on the final page. This checklist contains some of the basic information to seek from vendors when conducting legal due diligence. This information has been kindly supplied by specialist commercial lawyers [Watson Mangioni](#) who conduct detailed legal due diligence for a wide range of clients.

Due diligence questions to consider	Info received	Notes
Customers and Markets		
Is there a diversity of sales by major product line over the past two years?	<input type="checkbox"/>	
What was the \$/% margin earned on each main product and service over the past two years?	<input type="checkbox"/>	
At completion, what is the shape of the work pipeline (quotes, orders, work in progress) – is it similar to business as usual?	<input type="checkbox"/>	
Where does the business receive sales inquiries from and how does it market its propositions?	<input type="checkbox"/>	
What do key recent customers think about the business' product and service offering?	<input type="checkbox"/>	
What are the key trends, business issues, competitive dynamics and regulatory changes impacting the sector and geography that the business operates in?	<input type="checkbox"/>	

Due diligence questions to consider	Info received	Notes
Inventory and Suppliers		
How closely do inventory levels for major products match historic and expected sales levels for an industry relevant timeframe (sales cycle)?	<input type="checkbox"/>	
What are the specific payment and supply terms (by written agreement or verbal) for each main supplier to the business?	<input type="checkbox"/>	
What do the business' key suppliers think about the business and its performance, strengths and weaknesses?	<input type="checkbox"/>	
What portion of the business' inventory could be classified as slow moving or obsolete?	<input type="checkbox"/>	
Do you have enough decision support and information to conduct a stocktake at completion?	<input type="checkbox"/>	
People and Process		
What is the current organisational structure, and specific roles and responsibilities of the main roles driving the business?	<input type="checkbox"/>	
Have you sighted a complete payroll schedule, with remuneration and entitlements per employee (see Legal checklist below)?	<input type="checkbox"/>	
Are there any risks and issues with the transfer of employees, including entitlements, claims and other liabilities?	<input type="checkbox"/>	
Have you reviewed all employment documentation (contracts, verbals, promises, other) and considered the implications for transfer?	<input type="checkbox"/>	
What are the key processes and procedures that drive business performance (e.g. the job/project management process (from order through to deliver and billing) and do you understand each step (system, manual, other)?	<input type="checkbox"/>	

Due diligence questions to consider	Info received	Notes
Contracts, Licences, Registrations and Agreements		
Have you reviewed and considered all key agreements (documented and verbal) that require an obligation from the business?	<input type="checkbox"/>	
Have you confirmed the legal and practical status of business name and any trademarks, logos, and other valuable information such as IP, designs, drawings, logins, subscriptions, prepaid advertising etc?	<input type="checkbox"/>	
Have you identified and confirmed any assignment or transfers requirements for any items or agreements critical to the business operations that need to occur upon completion?	<input type="checkbox"/>	
Business and Financial Performance		
Have you cross-checked and undertaken an analysis to substantiate any adjustments to the financial accounts to confirm Business Maintainable Earnings (BME)?	<input type="checkbox"/>	
Have you conducted a reconciliation of management accounts to the accountant's financial accounts for the latest two years to confirm any differences?	<input type="checkbox"/>	
Have you identified any material variances in the financial performance over the past 2-3 years, why these occurred and the implications?	<input type="checkbox"/>	
What are the risks associated with the business' current debtor and creditor profile (e.g. arrears and poor payment, working capital impacts, etc)?	<input type="checkbox"/>	
Have you reviewed and assessed the monthly cash flow profile of the business to identify tight periods that impact working capital and why?	<input type="checkbox"/>	
Have you conducted a tax and BAS/GST liability reconciliation to confirm status and any variances of a material nature?	<input type="checkbox"/>	
Does the business adequately measure up (positively) against your acquisition, financial and other objectives? If not, does the current offer/acceptance have appropriate risk mitigation strategies, or do you need to reconsider your offer and/or contract provisions?	<input type="checkbox"/>	

Legal due diligence checklist

Information to seek from vendors	Received	Notes
A group structure diagram (including any wholly or partly owned subsidiaries and any other companies or entities which are integral to the business, with shareholding details where applicable).	<input type="checkbox"/>	
A list of all governmental, statutory or other permits, authorities or licences held by each group entity required by them to conduct their business.	<input type="checkbox"/>	
<p>For each group entity, full details of:</p> <ul style="list-style-type: none"> • all material assets owned by the entity, details of any purchase price outstanding, and the value, condition and location of the assets <input type="checkbox"/> • any encumbrances over the material assets <input type="checkbox"/> • all material contracts entered into by the entity <input type="checkbox"/> • the intellectual property rights, business names, domain names and software owned by the entity <input type="checkbox"/> • all freehold properties owned by the entity, and any properties leased or rented by the entity. <input type="checkbox"/> 		
Copies of documents relating to guarantees or security given by any member of the group in respect of the debts of any other company or person.	<input type="checkbox"/>	
A list of all financing arrangements entered into by the group companies.	<input type="checkbox"/>	
Details of each employee of the group companies (including name, position, location, start date, accrued leave entitlements, salary, superannuation and other benefits paid to the employee).	<input type="checkbox"/>	
Full details of any current, pending or threatened litigation against any group entity.	<input type="checkbox"/>	

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Disclaimer

This Due Diligence Checklist is a general guide to matters to consider when acquiring a business or shares in a company. You ought to seek professional advice before taking action or relying on any topic in this checklist. The material in this checklist is not advice and should be regarded as a general guide only.

If you would like to learn more about the **business advisory and broking services** offered by **JPAbusiness**, please contact the team by visiting www.jpabusiness.com.au

For information about the wide range of commercial law services provided by **Watson Mangioni Lawyers**, go to www.wmlaw.com.au

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