

Potential Checklist for the Sales Process

Below is an illustrative example of a list of potential documents that a company should be prepare for a sales process. Each industry is different, but this is a general list of due diligence items.

General

Summary of business (customers, suppliers, competition, manufacturing processes, capacity utilization, R&D activities)

Legal entity chart

List of related parties and areas of business associated with them

Most recent yearend audit report and financial statements

Cash

Bank statements for the period

Receivables

Allowance for bad debt policy

Revenue by customer for the periods

AR aging for each period end reviewed (Fiscal year and TTMs)

Credit and collection processes

Bad debt expense, write-offs and allowance

List of related party receivables

A/R factored?

Inventory

Inventory policy (physical count, obsolescence, etc.)

Obsolescence policy and process reserve

Major suppliers and concentration

List of hedges / forward contracts and accounting policy

Cost accounting policy (timing of standards updates and support)

Significant physical inventory adjustments and how accrued for

Scrap expense by month

Cutoff procedures

List of offsite or consigned inventory

Capacity utilization and overhead allocation

Property, Plant and Equipment

Capitalization policy (threshold, useful lives and depreciation)

Capital Expenditures—maintenance vs. growth, internal costs capitalized, deferred investments

Fixed Asset Sub ledger (listing of fixed assets)

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Other Assets

Obtain an understanding of any other assets balances

Leases

Listing of leases (monthly payments, terms, and accounting classification)

Payables

Timing of recognition of payables

A/P aging, payment policy and practice

Accruals and Contingencies

Summary of significant accruals and methods of determination

Warranty policy

Returns and allowances

Purchase commitment accruals

Environmental remediation accrual and methodology / support

Product liability

Insurance details (self or plan)

Restructuring

Existence of unsupported or excess accruals / reserves

Employee Related Liabilities

Employee related pay and related tax month end accruals

Employee handbook

Bonus and incentive / piece work payments and accruals

Employee benefit accruals, including vacation, sick pay, health and welfare, retirement and post retirement, post-employment

Deferred compensation agreements

Severance and retention agreements

Change in control provisions

Tax accruals and taxing authority audits.

Long-Term Debt

List of loans / debt outstanding with due dates, terms, and covenants

Commitments and Contingencies

List of pending litigations and related information

List of implicit or explicit guarantees

Detail of contingencies recorded Income Taxes

Tax accruals and taxing authority audits

Significant deferred tax assets and liabilities

Significant tax attributes

List of outstanding tax related audits and expected outcome

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Income Taxes

- Tax accruals and taxing authority audits
- Significant deferred tax assets and liabilities
- Significant tax attributes
- List of outstanding tax related audits and expected outcome

Operations

- Revenue accounting policy (description of streams, recognition policy, cutoff procedures, etc.)
- Customers—long-terms contracts, incentive programs (volume discounting/rebates, return policy and rights of return, etc.)
- Sales by customer for the full year and TTM periods
- Sales and Cost of Sales by product / sku
- Cost of goods sold—components, variances (tracking and capitalization), raw material pricing trends, cost deferrals/savings, potential costs increases, trends
- Vendor information, specifically for major vendors; contracts, incentive programs (volume discounting/rebates, rights of return, etc.), identify related party vendors
- Returns and allowances processing, volume and accrual allowance
- Research and development expenses and details
- List of one-time transactions that are not part of normal operations

Consolidation & Reporting

- Financial statements and management reporting packages for the recent year end and interim periods.
- Trial balances by month for the periods through the TTM
- Budget for period reviewed
- Intercompany transactions and elimination
- If acquisitions occurred during the last 36 months, then include: purchase agreement, opening balance sheet, previous financials (prior to acquisition), flow of funds

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