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FROM: Prospective Buyer  
TO: Business Seller  
DATE: August 31, 2020  
SUBJECT: Agenda for Financial Due Diligence Discussions

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**I. Company overview**

- a. Brief company history and overview of services.
- b. Office/facility/employee overview, as applicable.
- c. Financial reporting process and systems utilized.
- d. Month- and year- end closing process, cut-off, and timing – discussion of changes and evolution of processes and methodology over the last three years.
  - i. Discuss differences between QuickBooks Consultant's process vs. Seller's process.
- e. Overview of the following:
  - i. Core products and services
  - ii. Top customers
- f. Revenue recognition
  - i. Customers – standard contracts, terms, special arrangements, as applicable
  - ii. Discuss billings vs. cash received including invoicing, collection, and payment terms
  - iii. Seasonality
- g. Cost recognition
  - i. Discuss the process for recording and tracking inventory.
- h. Related parties and related transactions, if applicable

**II. Income Statement Analysis** – trial balance-led discussion focused on comparison of 2019, and TTM 6/30/20. If not discussed previously in the opening agenda items above.

- a. Sales
    - i. Pricing practices
    - ii. Significant customer agreements
    - iii. Revenue trends by customer
    - iv. Shipping Income
    - v. Non-recurring revenue – discuss the components of other revenue
  - b. Cost of goods sold and gross profit
    - i. Fluctuation analysis
    - ii. Freight costs – are freight costs inventoried or recorded as paid. What portion are charged to customers?
  - c. Operating Expenses
    - i. Discuss nature of inventory adjustments in 2019 and 2020.
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- ii. Discuss professional fees to Tempus, Inc. in February 2020.
  - iii. Discuss \$146k bad debt expense recorded in Jan-19.
- d. Other Income and Expenses
  - i. What were the nature of prior year adjustments recorded in January and December 2019?
  - ii. Discuss the loss due to theft in '18.

**III. Balance Sheet Analysis** – trial balance-led discussion focused on 12/31/18, 6/30/19, 12/31/19, and 6/30/20. If not discussed previously in the opening agenda items above.

- a. Cash
  - i. Discuss cash management processes and treasury function.
- b. Accounts Receivable
  - i. AR aging analysis
    - 1. Discuss the increase in the Over 90 days balance as of Jun-20.
  - ii. Write-offs, recoveries, and allowance for bad debt
    - 1. Discuss \$146k bad debt adjustment in '19
  - iii. Sales discounts and allowances, if applicable
- c. Inventory
  - i. How is inventory recorded and tracked? What costs are included in inventory?
  - ii. Discuss large inventory adjustments recorded in Jan-19 and Dec-19.
- d. Other Current Assets
  - i. Discuss use of Undeposited Funds account.
- e. Accounts Payable
  - i. Discuss the use of A/P vs EUR accounts in 2019, including how foreign exchange gains and losses are recorded.
  - ii. AP aging analysis
- f. Other Current Liabilities
  - i. Shareholder loan
  - ii. Misc. loan