business
for sale

Checking the Numbers

Before taking over a business, one should always conduct a proper due diligence. In fact, it is advisable to make any offer of an acquisition of a small or medium business subject to the completion of your own investigation into the affairs of the business. There are many methods to verify the numbers of an existing business and one can also use the services of a professional accountant who specializes in this field.

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Author: **Bronwen Barnard**

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One should however always check the following five basics:

1. Turnover / Revenue / Sales

Of utmost importance is to verify the sales/revenue income for the business.

This can be done through the Financial Statements of the business. However, the most accurate figure can be obtained by double checking the Vat Returns or VAT201. These are returns that every Vat Vendor must submit to SARS.

2. Cost of Sales / Purchases

Of similar importance is to verify whether the cost of sales is in line with businesses of similar nature.

It is a market reality that businesses in the same industry and sector generates similar gross profit margins. A good idea is to ask a professional Business Broker to assist with comparable figures.

If the Seller claims that he achieves a GP margin higher than the average, he should also be able to explain his competitive advantage.

3. Lease Agreement

The importance of a lease agreement cannot be over emphasized and obtaining a copy of the current lease agreement must form part of your due diligence process.

When checking the lease agreement, make sure that you don't just review the basic rental but also other factors such as utilities, contribution to marketing fund, cost of parking and number of parking bays available, as well as compulsory trading hours.

4. Staff

A small/medium business is as good as it's staff.

A good method to verify the salary and wages of the staff is to review the EMP201 returns and compare with the Pay Slips.

Also mind yourself of Section 197 of the Labour Relations Act, stipulating that staff are taken over by the new owner.

5. Other Expenses

As a potential buyer you should conduct the exercise of "creating" your own monthly expenses such as bank charges, transport cost, packaging, insurance and the like.

Compare this with the stated figures and ask questions where you detect any potential over/under declared expenditure.

When buying an existing business your deal should be based on **past performance** and it is **your responsibility** (and risk) to verify the numbers.

This is by no means a comprehensive methodology or tool to be used, but a mere guide from where to start from.