



# **PRCTICAL ISSUES**

## **TAX & FINACIAL DD**

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- **Financial & Tax DD** – what are we talking about?
- **General issues** – RAS vs. IFRS; IT / Accounting Systems
- **Revenue & Expenses** – Key KPIs
- **Fix Assets & other Balance Sheet items** – Also important
- **Related Party & Tax issues** – SPVs +

- **Due Diligence** = *Преинвестиционная проверка.*
- **Many forms of Due Diligence** - Technical; HR / Management; Reputational.
- **Financial Due Diligence** – the purpose of financial due diligence is to identify and **quantify** the financial risks related to the target business.
- **Tax Due Diligence** – a group of procedures intended to detect, evaluate and **help mitigate** probable tax risks for the investor.



# General Issues

- **Russian Accounting Standards** – still “form over substance”.  
But moving in the right directions – several IFRS incorporated.
- **Investors want “substance”** – this can be IFRS, US GAAP, “Accrual Accounting”.
- **“Substance” going back 3 years** – IFRS / GAAP accounts should be kept and audited annually... avoid “we re the shareholders and we know where the cash is going”.
- **Accounting software and systems** – “what you put in is what you get out”...investors will test the accounting system. Use of un-license software is becoming an issue – authorities clamping down.

# Recognition of Revenues & Expenses

- **Revenues and cash flows are key KPIs:**
  - is revenue overstated on paper?
  - are all revenues recorded in the period they are earned?
  - what is the “quality” of your revenue streams?
  
- **Are your expenses “economically justifiable”?**
  - Investors want “substance” that is documented... important for tax purposes as well.
  - Any expenses “stuck” in the bal. sheet or “forgotten”?
  - Any expenses that are there for tax planning or **not** there for tax planning?
  - Structure of expenses – any supplier dependency?

# “Balance Sheet”? Profits in the P&L!

- **Are the value of assets real?**
  - assets revalued above “fair value” for increased net assets.
  - assets over / undervalued because of poor inventory.
  - are the assets impaired because obsolete, old technology?
- **Is there proper title to property? Is the land under the property legally owned?**
- **Is the value Accounts Receivable “receivable”?**
  - AR long overdue and should be written off.
  - Is it AR or an expense sitting in the Balance Sheet?
- **Do full inventory of AR and AP ..OR Vendor’s DD?**

*Any overvalued assets can lead to provisions being made and lower deal value!*



# Related Party & Tax Issues

- **SPVs – a tax and financial issue**
  - **Tax** – SPVs are sometimes set up for tax optimizations. Investor will withhold funds to mitigate risks... One of the most hotly negotiated aspects.
  - **Financial** – investor want consolidated position therefore intercompany transactions eliminated.
- **Other related party risks** - subsidized Loans from government used to finance relater party.

## Tax Issues

- How aggressive is the tax strategy? Positions differ from Tax Office.
- How accurate is the tax accounting and payments?
- The investor is concerned about the validity of any tax deduction.
- Were tax declarations were submitted on time?
- Are the know tax liabilities were reported in the accounting records?

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