



# Best Practice with Regard to Licensed Trade Stock Valuations at Change of Business Ownership

## 1. Liquor Stock

### 1.1 Instruction

Any instruction from a prospective client or broker should allow sufficient time for a formal, written, agreement to be made with regard to the following.

Subject to any clauses in the contract of sale, the following guidelines should apply.

### 1.2 Cost Prices

#### 1.2.1 Discounts

The vendor should be advised that it is his responsibility to provide written proof of cost prices for the previous four weeks' stock purchases. Invoices should be provided to show these cost prices. In the event that the vendor does not have this information to hand, he should authorise copy invoices to be provided by the supplier. This is necessary to ascertain the correct value of the stock on hand. This is then accepted as the market value for this stock valuation.

Slow moving stock that has been delivered more than four weeks ago should be valued at an estimated fair market value, or lower. The price is to be agreed between the stock auditors acting for the incoming and outgoing client.

In the event that a stock auditor is unable to procure such assurances of actual costs, the maximum discount should be applied to the cost value paid for the goods.

#### 1.2.2 Stock Supplied Free of Charge

Unless it can positively be proven that any goods included in the stock valuation were supplied free of charge, all stock should be valued at the market value.

### 1.3 Shelf Life

It is the vendor's responsibility to ensure that all out of date stock has been removed from sale, as confirmed in writing on the Change of Business Ownership form. However, the following should apply:

#### 1.3.1 Sell By Dates

Any stock item that has exceeded its sell by date should not be included in stock.

#### 1.3.2 Best Before Dates

Any stock item that has exceeded the recommended best before date should be disregarded. In the event that it is agreed by both parties that it is in an acceptable condition a heavily discounted rate may be agreed, with assurances that there is no guarantee of quality.

#### 1.3.3 Short Dated Stock

Any stock item that is identified as short dated may be discounted, if it is agreed that it cannot be sold within its shelf life. For the purpose of the stock valuation, short dated is defined as unlikely to be sold within its shelf-life.

Unless agreement has been made prior to the changeover date, this stock should not be excluded from the valuation.

#### **1.3.4 Disposal of Stock Not Included in the Valuation**

Any stock item that has not been included in the valuation should be removed to one area and clearly identified to both the outgoing and incoming clients. These goods remain the property of the vendor and it is his responsibility to remove them from the premises.

### **1.4 Stockholding in Excess of Requirements**

In the event that there is a high level of stockholding of any item it is the responsibility of the vendor to prove that the stock can be sold before it goes out of date. Stock that has no designated shelf-life may be subject to agreement between the vendor and purchaser. Proof should be in the form of an extended stock result, produced by an ILTSA qualified stock auditor.

### **1.5 Certification**

The stock auditor should provide a certificate of valuation for the stock. In the event that one stock auditor is acting for both ingoing and outgoing parties, then an itemised report showing quantities and cost prices used should be supplied on site. The presence of two stock auditors, agreeing all counts, costs and final figures, acting for ingoing and outgoing clients may be accepted as obviating the need for the production of itemised reports.

### **1.6 Cellar Gas Supplies**

Cellar gas should only be included in the valuation, if it has been agreed in advance of the valuation, as confirmed in the Change of Business Ownership form.

#### **1.6.1 Rented Cellar Gas Cylinders**

The rental company or supplier should be present on the day of the changeover to ensure that they accept the stock count of rental cylinders and remove any empties prior to the purchase.

#### **1.6.2 Purchased Cellar Gas Cylinders**

Only gas which is currently in use should be included. Full cylinders that have not been opened may be valued at the current market value, if prior agreement has been reached.

#### **1.6.3 Cellar Gas Cylinder Stockholding in Excess of Requirements**

As with any stock, the notes in 1.4 would apply.

#### **1.6.4 Cellar Gas Cylinder Contracted**

Gas that is supplied by companies that require signed contracts does not have any value at changeover. In this case, the cellar gas supplier should be informed of the change of ownership, as with the utilities.

### **1.7 Quality and Percentage Volume of Alcoholic Beverages**

#### **1.7.1 Percentage Volume of Alcohol**

The vendor has already agreed in the Change of Business Ownership form that all stock is at the required percentage of alcohol by volume and has not been tampered with, diluted or in any other way adulterated. However, the stock auditor should be prepared to carry out hydrometer tests on any large quantities of open bottles of spirits. It is the responsibility of the vendor to guarantee the purity of the contents of all open bottles, casks, kegs and containers. All claims with regard to the purity of the contents of such opened containers should be dealt with at the time of the valuation. Claims made after the valuation has been completed should not be considered.

### **1.7.2 Suitability of Storage**

The suitability of storage should be considered when accepting stock of cask ale, wine, minerals, cigars, snacks and any other stock that is affected by ambient conditions. Particular regard should be paid to the cleanliness of the cellar, possible water damage, exposure to very high or low temperature, rodent damage, sunlight damage etc. Any stock which is considered below standards acceptable for resale may be offered at a discounted rate or excluded from the valuation altogether. Precise definitions of acceptable standards with regard to stock storage areas are available from the Health & Safety Executive.

### **1.7.3 Duty Paid Goods**

Any stock that is found to be above the normal percentage of alcohol by volume may have been purchased abroad, without the necessary duty payment being made. In the event that any goods are discovered to be duty free, they should be removed by the vendor.

After January 2007 all bottles sold for retail will need to carry a duty stamp, indicating that the correct duty has been paid.

## **1.8 Fine Wine**

### **1.8.1 Cost Prices**

The vendor should endeavour to supply invoices for wine purchased. In the event of wines being purchased for investment purposes then the valuation should be made at Full Market Replacement Value or that used for Insurance purpose. In this instance, subject to Contractual agreement, the vendor would be allowed to remove such wines prior to the changeover

An independent expert opinion should be sought for valuations that include high values of fine wines.

### **1.8.2 Vintages**

All vintages should be checked in order to ensure that they are correctly valued. Subject to 1.8.1 the purchaser should not be allowed to "Cherry pick" the best vintages.

### **1.8.3 Suitability of Wine Storage**

As with any stock, the suitability of storage areas, with regard to temperature and position (i.e. not in direct sunlight, not subject to water damage etc.) should be considered and any stock that is not acceptable should be treated as noted in 1.7.2 above.

Ideal conditions are cool dark but dry cellars with a temperature between 12 – 13<sup>o</sup> C with no obvious signs of dampness.

### **1.8.4 Damaged Labels**

Bottles with damaged labels may be discounted, subject to the quantity and original cost price. Provided that they are identifiable.

Torn labels should be discounted, depending on the original price of the wine and the severity of the damage. In the event of not being able to ascertain the wine then no value could be given.

Bottles with missing labels should not be valued and the vendor would be given the opportunity to remove from site.

### **1.8.5 Wine Purchased "En Primeur"**

Subject to contractual agreements, as in 1.8.1. Wines bought "en primeur" will be subject to an uplift of their original cost price by several factors. Firstly the exchange rate, secondly the freight and insurance costs, presuming these to be abroad. Thirdly the duty and VAT at the current rate to be applied to all the above. Fourthly it can be assumed that the value of the wines will have increased to be between 25 - 30% of

original cost when shipped and placed for sale in the UK market, depending on vintage and area of origin.

For wines already in the UK, under Bond, then a certificate of Ownership must be obtained from the Bonded warehouse. Duty and VAT at the current rate will be applied.

As will the uplift as above to current market price unless agreed in the contract.

For wines already in the UK, duty paid, then proof of ownership and invoice price will be used again subject to an uplift to current market price unless agreed in the contract.

## 2. Food Stock

Agreement, prior to completion, should be sought to establish whether food stocks are to be maintained, run down or exhausted. In the event that food is to be included, the following should be considered:

### 2.1 Shelf Life

#### 2.1.1 Sell By Dates

Any stock item that has exceeded its sell by date should not be included in stock and should be removed from the storage areas.

#### 2.1.2 Best Before Dates

Although best before dates are guidelines rather than statutory limitations, any stock item that has exceeded its best before date should not be included in stock and should be removed from the storage areas. The quality of goods beyond their best before date may have exceeded the minimum quality requirements for sale.

#### 2.1.3 In-House Date Labels

Date labels that have been applied to pre-prepared stock items are not a guarantee that the stock is in an acceptable condition. Pre-prepared food stock should be excluded from the valuation, as quality and age cannot be guaranteed.

#### 2.1.4 Open Containers

Open containers may have been contaminated. Checks should be made to ensure that any that require refrigeration are stored at the appropriate temperature. Open containers should be excluded.

#### 2.1.5 Disposal of Stock Not Included in the Valuation

Any stock item that has not been included in the valuation should be removed to one area and clearly identified to the outgoing and incoming clients. These goods remain the property of the vendor and it is his responsibility to remove them from the premises and may be subject to a financial penalty in the event that goods are not removed.

### 2.2 Cost Prices

#### 2.2.1 Discounts

The vendor should be advised that it is his responsibility to provide written proof of cost prices for the previous four weeks' stock purchases. Invoices should be provided to show these cost prices. In the event that the vendor does not have this information to hand, he should authorise copy invoices to be provided by the supplier. This is necessary to ascertain the correct value of the stock on hand. This is then accepted as the market value for this stock valuation.

In the event that a stock auditor is unable to procure such assurances of actual costs, the maximum discount should be applied to the cost value paid for the goods.

## 3. Glasses

### 3.1 Boxed Glasses

#### 3.1.1 New

Consideration should be given to the reason why the boxed glasses have not been used. If they are, for example, sherry glasses in a pub relying on a local football club for trade, they should be excluded from the valuation, or included at a minimal cost.

All glasses that are the correct size should be included, unless there is prior agreement that a limit to the value will be made.

#### 3.1.2 Used

Used, boxed glasses should be checked to ensure that the contents agree with the box labelling. Consideration should be given to the reason that they are not in use, as mentioned in 3.1.1.

A discount of between 10% and 20% would be applied to all used glasses that are accepted, depending on the condition of the stock. Glasses that are old fashioned may be discounted further.

### 3.2 Loose Glasses

#### 3.2.1 New

It is unlikely that any glasses out of boxes should be new. All unboxed glasses should be considered used and discounted as discussed in point 3.1.2.

#### 3.2.2 Used

A discount of between 10% and 20% would be applied to all used glasses that are accepted, depending on the condition of the stock. Glasses that are old fashioned may be discounted further.

#### 3.2.3 Odd Glasses

Any odd glasses, in use on shelves, should be valued at a greatly reduced rate.

#### 3.2.4 Lead Crystal & Speciality Glasses

Consideration should be given to the quality of the glasses, but unusually high quality glasses should be valued at market value. Large quantities of high quality or speciality glasses should be included, but only if arrangement has been made prior to the valuation between both clients.

#### 3.2.5 Promotional Glasses

Promotional glasses, supplied free of charge to advertise a product stamped on the side, should not be included in the valuation. One exception would be glasses supplied by a brewery with the brewery logo, but charged to the client. In this instance the vendor should produce a copy invoice or obtain confirmation of the value of the goods from the brewery prior to the valuation.

## 4. Cleaning Materials

### 4.1 Miscellaneous Consumable Cleaning Materials

#### 4.1.1 Non-Specific Items

Goods that are not designed for use with any specific equipment, such as tinned polish, mop heads, bleach, etc. should be valued at the price indicated on the vendor's invoices. In the event that the goods were purchased prior to the four week period for which the vendor is required to supply invoices, then an estimated market value should apply.

#### 4.1.2 Specific Items

Goods that are designed for use with specific equipment, such as bulk toilet paper, glass washer supplies, light bulbs, mechanical floor cleaner supplies etc. should be

excluded, unless the vendor can show that the stock is for use with current equipment that is being transferred to the purchaser.

## 5. Sundry Items

### 5.1 Miscellaneous Consumables

#### 5.1.1 Non-Specific Items

Goods that are not designed for use with any specific equipment, such as stationery, order pads etc. should only be included if they do not carry the vendor's name, VAT number or any other details that will change with ownership.

#### 5.1.2 Specific Items

Goods that are designed for use with specific equipment, such as till rolls should be excluded unless the vendor can guarantee that the stock is for use with current equipment

### 5.2 Fuel

#### 5.2.1 Fuel in Tanks

The vendor should supply invoices relating to the purchase of oil or gas contained in tanks. In order that the size may be determined and contents may be gauged the supplier should be contacted. Oil tanks should be manually dipped in addition to meter readings.

#### 5.1.1 Other Fuel

The vendor should supply invoices relating to the purchase of coal and logs. In the event that these were purchased more than four weeks ago, the market value should be applied.

## 6. Utility Readings

### 6.1 Meter Readings

All meter readings should be taken in the presence of a witness. The readings should be included on the valuation certificate.

## 7. Container Deposits

### 7.1 Empty Bottles & Cases

#### 7.1.1 Empty Bottles

Any bottles that are not stored in returnable cases ( i.e. piled in bottle skips) should be excluded, as it is possible that they may be non returnable. Only those bottles that can be returned to current suppliers should be included.

#### 7.1.1 Empty Cases

Only empty cases that can be returned to a current supplier should be included.

### 7.2 Deposits on Other Containers

Occasionally other containers, such as casks, are subject to a deposit. These should be notified in advance by the vendor.

Any query with regard to this document should be addressed to the Institute of Licensed Trade Stock Auditors at:

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