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FDD Item 21 Financial Statements: Whose Audits Are These?

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Executive Summary

FDD Item 21 financial statements, included in the **Franchise Disclosure Document (FDD)**, support an initial assessment of a franchisor's financial condition, provided the reader first establishes whose accounts are presented. The ordinary federal requirement is **two fiscal year-end balance sheets** and **three fiscal years of operations, stockholders' equity and cash-flow statements**, subject to the startup provisions. (www.law.cornell.edu) (www.ecfr.gov) The statements ordinarily require an audit by an independent **certified public accountant (CPA)** using generally accepted United States auditing standards. (www.ecfr.gov) For a private equity (PE) origination team, the immediate decision is whether these accounts can be attributed to the candidate legal entity, and what additional evidence would make a deeper review worthwhile.

Parent, affiliate and subsidiary accounts answer different questions. The rule permits qualifying affiliate statements as a substitute when accompanied by an absolute and unconditional guarantee of the franchisor's franchise-agreement obligations. (www.law.cornell.edu) A parent formally committing to post-sale obligations or guaranteeing the franchisor's obligations can trigger additional disclosure, while controlling subsidiary interests affect the financial perimeter. (www.law.cornell.edu) (regs.maryland.gov) A large parent balance sheet therefore should not become a target revenue estimate. The proposed worksheet records the issuer, relationship to the candidate, consolidated entities, covered periods and guarantee before extracting financial metrics.

An absent audit requires classification and follow-up. Federal startup phase-in can begin with an unaudited opening balance sheet, while Virginia requires an audited opening balance sheet for its startup treatment. (www.law.cornell.edu) (law.lis.virginia.gov) California's application instructions also describe reviewed statements for eligible first-time franchisors. (dfpi.ca.gov) These are jurisdiction-specific distinctions, rather than an automatic finding about any candidate. A review provides limited assurance; an audit provides high but not absolute assurance. (www.aicpa-cima.com) Counsel and a CPA should assess the applicable treatment and the actual accountant's report.

Revenue mix and cash generation remain separate screening questions. The **Federal Trade Commission (FTC)** consumer guide encourages examination of royalty income versus income from franchise sales, while the **Securities and Exchange Commission (SEC)** explains why profit and cash generation differ. (www.ftc.gov) (www.sec.gov) Calculate royalty share only when royalties and total revenue are separately identifiable for the same issuer, perimeter and period. Preserve unknown otherwise. Reconcile outlet movements and performance disclosures by period and population, then hand off an explicit unanswered-questions register. This is a proposed evidence-screening process, not a valuation model, acquisition recommendation or legal conclusion.

Introduction and Background

A financial statement can be authentic, audited and still unsuitable for the question an acquisition researcher is asking. A candidate may be a franchisor subsidiary while the available statements describe a wider reporting group. Item 21 expressly addresses subsidiary interests and separate statements for specified entities. (www.law.cornell.edu) The research task is to establish the relationship between that reporting perimeter and the contemplated acquisition perimeter.

A **Franchise Disclosure Document (FDD)** is the starting document for this analysis. The Federal Trade Commission (FTC) consumer guide discusses the financial statements from a prospective franchisee's perspective, including the importance of understanding royalty income. (www.ftc.gov) This report adapts those questions to early PE screening. It does not treat franchisee guidance as an acquisition diligence standard or infer anything about a real franchisor's sale readiness.

For Docket's private-equity origination audience, the useful output is an **issuer-and-period worksheet**: a compact record showing which financial observations belong to which entity, the evidence supporting that mapping, and the information still needed. The scope here is narrower than a general company-identity guide or investment screening rubric. It concerns attribution of the financial statements supplied with an FDD.

Research was conducted for publication in **November 2026**. The current electronic Code of Federal Regulations (eCFR) page displayed Title 16 as current through **October 30, 2026**; that display is a currency statement, not evidence of a recent amendment to Item 21. (www.ecfr.gov) The analysis combines the federal text, identified FTC staff interpretations, state requirements and authoritative financial-reading guidance. No actual candidate FDD or acquisition target was sampled.

The practical question throughout is: **what can this document support now, and what should the team request next?** Answers should remain bounded by the issuer, financial period, accountant's report and disclosed notes. The worksheet is designed to make those limits visible before a financial observation enters a target screen.

Key Changes: Put Entity Attribution Before Financial Ratios

The changes proposed here concern research workflow. They do not imply that the underlying legal requirements have recently changed.

Identify the reporting entity before using its figures

Start with the candidate's exact legal name, the franchisor named in the FDD, and the issuer named in the accountant's report and financial statements. Under the federal definitions, a parent controls another entity directly or indirectly; a subfranchisor performs both pre-sale and post-sale functions. (www.ecfr.gov) Those roles should be established from the documents rather than assigned from a brand label.

Table 1 translates the disclosed entity role into a screening question. It is an attribution map, not a determination of which entities a transaction would acquire.

Statement issuer or role	Relevant disclosure distinction	Question for the candidate screen
Franchisor	Ordinary statements address the franchisor, with the prescribed reporting periods. (www.law.cornell.edu)	Does the exact issuer match the candidate legal entity?
Parent with a relevant commitment or guarantee	Separate financial disclosure can be required when the parent performs the specified role. (www.law.cornell.edu)	What does the parent promise, and is that parent within the proposed deal perimeter?
Affiliate used as substitute issuer	Substitution depends on the qualifying guarantee and financial statements. (www.law.cornell.edu)	Are the guarantee, issuer and covered obligations identifiable?
Controlled subsidiary within the reporting group	The statements should reflect the franchisor and controlled subsidiary's financial condition. (www.law.cornell.edu)	Which activities are included, and are any outside the candidate business?
Subfranchisor	Separate financial statements are specified by the rule. (www.law.cornell.edu)	Is this the relevant contractual operator, and how does it relate to the candidate?

A completed entity map may still leave attribution unresolved. In particular, a statement covering a group does not itself allocate revenue, expenses or cash to each member. Request an entity-level bridge or carve-out information when the acquisition question requires a narrower perimeter.

Read the guarantee rather than infer support

A qualifying affiliate guarantee must cover the franchisor's obligations to franchisees, but need not extend to third parties. (www.ecfr.gov) (www.ftc.gov) The federal text also calls for the guarantee to be attached when that substitution is used. (www.govinfo.gov) Record its parties, scope and referenced agreement; ask counsel about its interpretation and relevance to the proposed transaction.

FTC staff distinguishes internal parent administrative services from formal commitments benefiting franchisees. Internal services alone do not trigger the parent financial-disclosure requirement. (search.ftc.gov) Staff guidance also describes affiliate disclosure as voluntary in the relevant circumstances, subject to the parent requirements. (search.ftc.gov) These distinctions make the actual documents more informative than a generalized assertion that a parent “stands behind” the brand.

Treat audit status as a separate field

A compilation provides no CPA assurance, while a review provides limited assurance. (www.aicpa-cima.com) An audit provides high but not absolute assurance. (www.aicpa-cima.com) Record the service actually described, the report date, financial periods covered and any qualifications or explanatory language. Then classify the document against the applicable federal and state treatment rather than converting “missing audit” into a compliance verdict.

Implementation Considerations and Process Changes

Establish eligibility and version

The FTC compliance guide limits startup phase-in to eligible companies new to franchising without audited statements. It excludes an existing business that already prepared audits before franchise sales, and specified spin-offs, affiliates or subsidiaries of existing franchisors with prior audits. (www.ftc.gov) A newly formed issuer therefore does not establish eligibility by itself. Obtain the operating history and ask counsel to assess the claimed basis.

Establish which version is available

The federal updating rule calls for a revised FDD within **120 days** after fiscal year-end and material-change revisions within a reasonable time after each fiscal quarter. (www.ecfr.gov) That establishes an updating framework, not proof that a downloaded file is the current version for a particular offering.

Version controls need more than a year in a filename. Wisconsin explains that an amendment during a registration period does not change the issuance date. (dfi.wi.gov) Its guidance also connects that date to the certification and accountant's consent. (dfi.wi.gov) California's filing instructions require the consent to identify the franchisor's legal name and relevant document and report dates. (dfpi.ca.gov) Compare those fields before combining exhibits from different downloads.

Use public access routes within their stated scope

Wisconsin's filing portal allows searches that display registration status and the disclosure document. (apps.dfi.wi.gov) Minnesota states that CARDS contains franchise registration information and documents from the **last 10 years**, and that the documents are public and may be copied. (mn.gov) Virginia directs users to its State Corporation Commission for registration status or an FDD copy. (www.scc.virginia.gov)

Access arrangements differ. Washington directs users to contact its regulator to check whether a franchise has filed; Maryland similarly directs registration questions to its Securities Division. (dfi.wa.gov) (oag.maryland.gov) A public access route should be recorded as such, without assuming every jurisdiction offers identical downloadable histories.

Build the reusable worksheet

Table 2 defines the proposed worksheet. Populate it from the actual FDD and statements; a blank field should remain an explicit open question.

Field	What to retain	What an unresolved field should trigger
Source document URL and date	Actual retrieval URL, retrieval date, jurisdiction and exhibit/page reference	Obtain the source file or label provenance incomplete
FDD version	Issuance date, amendment identifier and relevant state effective date	Request the current complete package
Reported issuer and relation to target	Exact issuer, candidate legal entity and documented relationship	Obtain the organization chart and identity bridge
Consolidated entities	Named entities, inclusion basis and any disclosed changes	Request the reporting-perimeter schedule
Fiscal years and dates	Balance-sheet dates and operations/cash-flow periods	Resolve differing fiscal calendars and short periods
Audit status or exception	Report type, auditor, report date and stated phase-in basis	Ask counsel and the CPA to assess applicable treatment
Revenue-category disclosure	Exact labels, amounts and note references	Keep royalty share unknown if the split is unavailable
Item 20 reconciliation	Outlet population, period and movement bridge	Explain differences before linking outlets to revenue
Item 19 reconciliation	Represented metric, population and measurement dates	Avoid using outlet performance as issuer revenue
Confidence	Supported, partially supported or unresolved, with reasons	Distinguish attribution confidence from investment merit
Open question and owner	Specific request, responsible reviewer and required evidence	Keep the record pending until the issue is answered

The worksheet connects the candidate to its issuer, reporting perimeter and periods. An unresolved perimeter keeps attribution pending, even when source details are complete. Assess financial attractiveness separately.

Reading Revenue, Cash Flow and Liquidity

Preserve the disclosed revenue categories

The FTC consumer guide asks whether income comes more from royalties paid by existing franchisees or franchise sales. (www.ftc.gov) For acquisition screening, this becomes a request for the **disclosed revenue mix**, not permission to construct a recurring-revenue estimate from incomplete statement labels.

If royalties and initial fees are separately disclosed, retain both and their accounting-policy notes. If the accounts combine them, record **royalties: unknown** and **initial fees: unknown**, alongside the combined line. A line called franchise revenue should not be relabeled recurring revenue merely because the business franchises.

The Financial Accounting Standards Board's Accounting Standards Update **2021-02** explains a practical expedient for eligible nonpublic franchisors concerning specified pre-opening services and the franchise license. (storage.fasb.org) It also discusses separate performance obligations and standalone selling prices. (storage.fasb.org) This update explains amendments rather than serving as a substitute for the authoritative Accounting Standards Codification. The screening implication is to request the actual recognition policy and a CPA's assessment before equating fee receipts, contract signings and reported revenue.

Useful questions include:

- **Royalties:** Is a separate amount disclosed, and what activities does it cover?
- **Initial fees:** Is the amount separately identifiable, and when is it recognized?
- **Other revenue:** Are product sales, services or other activities included in the denominator?
- **Contract balances:** What do the notes disclose about advance collections and remaining obligations?
- **Related parties:** Which revenues, charges or balances depend on other group entities?
- **Comparability:** Have policies, reporting entities or fiscal periods changed?

These are diligence questions, not assertions that every statement contains each category.

Read cash flow beside income

The SEC distinguishes revenue earned over a period from assets and obligations at a point in time. (www.sec.gov) It also explains that the cash-flow statement answers whether a company generated cash and adjusts net income for noncash items in the operating reconciliation. (www.sec.gov) Use these differences to frame requests for explanation.

For example, a screen can record the direction of operating cash flow and ask how working-capital movements relate to reported income. It should not infer distributable cash or debt capacity from a profit figure alone. Trace the questions to the relevant statement and note rather than introducing unsupported adjustments.

Inspect liquidity and assurance within scope

Working capital is current assets less current liabilities, according to the SEC's guide. (www.sec.gov) This is a starting calculation. Request explanations of material receivables, cash restrictions, debt maturities and related-party funding when the actual statements make them relevant.

Do not attach a universal pass threshold. The SEC cautions that desirable ratios vary by industry. (www.sec.gov) An origination team should state its own mandate requirements and identify the evidence needed to assess them.

The Public Company Accounting Oversight Board (PCAOB) describes reasonable assurance as high rather than absolute assurance and separates management's preparation role from the auditor's opinion role. (pcaobus.org) This is context from that audit framework, not an assertion that a private franchisor's audit follows PCAOB standards. Read the framework identified in the actual report, and refer accounting interpretation to the CPA.

Reconciling Items 19, 20 and 21

Keep the measurement objects separate

Item 19 concerns representations about actual or potential financial performance of franchised or franchisor-owned outlets. (www.ecfr.gov) **Item 20** supplies franchised and company-owned outlet information across the prescribed historical period. (www.ecfr.gov) **Item 21** provides the financial statements addressed in the entity map. These disclosures are related evidence, but they measure different objects.

Outlet sales should therefore remain outlet sales in the worksheet. The FTC consumer guide cautions that gross-sales figures do not establish franchisees' actual costs or profits. (www.ftc.gov) They also should not be copied into the franchisor's revenue field. A revenue-recognition policy and an appropriate outlet population are needed before a royalty calculation becomes a meaningful reconciliation.

Align periods and populations before testing relationships

Historical financial-performance representations must identify relevant measurement dates. (www.ecfr.gov) Retain those dates alongside the statement fiscal years. A calendar-year outlet measure and a different fiscal-year revenue figure should generate a reconciliation question rather than an unexplained ratio.

The North American Securities Administrators Association (NASAA) commentary distinguishes signed franchisees that have not opened from operating outlets: the former belong in the projected-opening table. (www.nasaa.org) Its commentary also allows substantially similar international outlets in the relevant disclosure without requiring their inclusion. (www.nasaa.org) Check the actual geography and population before comparing an outlet count with revenue that may cover a broader group.

A useful reconciliation follows this sequence:

- **Population:** Identify franchised versus company-owned outlets and the disclosed geography.
- **Movement:** Retain the original opening, transfer, closure and other movement categories.
- **Timing:** Identify outlets open for only part of the financial reporting period.
- **Pipeline:** Separate signed agreements and projected openings from operating locations.
- **Metric:** Preserve the exact financial-performance measure, including its stated coverage.
- **Bridge:** Request an explanation of differences, leaving unexplained amounts unresolved.

NASAA also says that more-current franchisee lists should be segregated from year-end lists. (www.nasaa.org) Preserve that distinction when using contact lists or outlet schedules as corroboration. A more recent list may improve current identity research while remaining unsuitable as the denominator for a historical financial period.

Use differences to specify requests

The aim is not to force every disclosure into an arithmetic tie. A difference may concern geography, timing, accounting recognition or legal-entity scope. Record the observed mismatch, the relevant pages and the proposed explanation as separate fields.

An effective request might ask for a schedule reconciling disclosed royalty revenue to the covered outlets, with opening dates, applicable contractual rates and accounting adjustments. That is a proposed diligence request, not a conclusion that the public FDD already supplies those inputs. Until the schedule exists, retain the uncertainty.

Screening Decisions and Escalation

Separate research readiness from financial attractiveness

Public filing status is not an investment conclusion. Wisconsin explicitly states that it is **not a franchise merit-review state**, and says registrations become effective on receipt. (dfi.wi.gov) An origination team should likewise keep documentary availability separate from its financial assessment.

Suggested research statuses are **attributable**, **attributable with qualifications**, and **unresolved**. These are proposed workflow labels. They describe whether the available accounts answer the candidate-entity question, not whether a business is a good acquisition.

Escalation should be specific:

- **Issuer mismatch:** Request evidence connecting the statement issuer to the candidate.
- **Group-only accounts:** Request entity-level or carve-out information for the intended perimeter.
- **Guarantee dependence:** Ask counsel to assess the actual guarantee and related obligations.
- **Startup phase-in:** Establish franchise-selling history and applicable jurisdictional treatment.
- **Report unavailable:** Obtain the complete accountant's report and referenced statements.
- **Revenue split unavailable:** Request the royalty and initial-fee detail; keep the metric unknown.
- **Cash questions:** Ask the CPA to interpret cash-flow reconciliation and relevant notes.
- **Version uncertainty:** Obtain the current FDD, amendments and applicable state documents.

A weakly attributable positive result should stay in the research queue. A clearly attributable result that falls outside the mandate can be assessed on its actual evidence. This avoids making missing information function as either a favorable assumption or an unexplained rejection.

Record the unresolved question in an answerable form

“Need more financial diligence” is too broad to guide the next step. Prefer a request that names the entity, period, missing item and reviewer. For instance, ask for the candidate's standalone revenue schedule for the same period as the consolidated statement, including the bridge to the published total.

Keep competing explanations visible. If an account title suggests the parent but the notes identify a different perimeter, retain both observations until reconciled. The confidence field should explain which relationship is supported and which remains uncertain.

Professional interpretation belongs with the appropriate reviewer. AICPA-CIMA (American Institute of Certified Public Accountants and Chartered Institute of Management Accountants) advises consulting a CPA about the financial-statement service appropriate to the business's goals. (www.aicpa-cima.com) Franchise counsel

should assess legal disclosure and guarantee questions. This report has not been reviewed by either professional and does not claim a compliance or accounting opinion.

Data Analysis and Evidence

Quantify the reporting requirements, not an invented market benchmark

The quantitative core is a set of **reporting-period and timing requirements**, not a survey of franchisor quality. No candidate financial sample was collected, so this report supplies no industry median, default royalty mix or acquisition success rate.

Table 3 summarizes selected federal and state distinctions. The state entries are examples for their stated jurisdictions, not a complete national requirements matrix.

Context	Quantitative or assurance requirement	Screening interpretation
Ordinary federal Item 21	Balance sheets for **2 fiscal year-ends**; operations, equity and cash flows for **3 fiscal years**. (www.law.cornell.edu) (www.ecfr.gov)	Check each statement's actual dates; avoid treating all statements as having identical lookbacks
Federal startup, first franchise-selling fiscal year	An **unaudited opening balance sheet** may begin the phase-in. (www.law.cornell.edu)	Verify eligibility and the first franchise-selling period
Federal startup, second franchise-selling fiscal year	Audited balance-sheet opinion at the end of the first partial or full selling year. (www.ecfr.gov)	Do not demand the ordinary history without checking the phase-in
Federal startup, third and subsequent selling years	Required prior-year statements plus previously disclosed audits still required by the lookback. (www.ecfr.gov)	Inspect the actual accumulated statement history
Virginia startup	An **audited opening balance sheet** is required under its startup provision. (law.lis.virginia.gov)	Federal phase-in does not settle Virginia treatment
California eligible first-time franchisor	Application instructions permit a **reviewed financial statement** for eligible applicants. (dfpi.ca.gov)	Establish eligibility; a review and audit have different assurance levels
Virginia interim filing trigger	Most recent audit more than **120 days** before application triggers interim requirements. (law.lis.virginia.gov)	Record application date and interim statement coverage
Maryland interim filing trigger	Most recent audit more than **90 days** before application triggers the specified interim requirement. (regs.maryland.gov)	Keep Maryland's timing separate from Virginia's

Different timing thresholds should not be collapsed into a generic “financials are current” flag. Virginia specifies an interim balance sheet within its application window, while Maryland has its own timing provision. (law.lis.virginia.gov) (regs.maryland.gov) Separately, the federal rule allows identified unaudited financial information in quarterly revisions. (www.ecfr.gov) Record the document category before deciding what its audit status means.

A proposed royalty-share calculation

Define **royalty share of disclosed revenue** as:

Separately disclosed royalty revenue / total disclosed revenue for the same issuer, perimeter and period × 100.

This is the report's proposed screening calculation, not a standardized metric attributed to a regulator. Its denominator must retain the actual reporting entity's revenue definition.

Hypothetical Example: If fictional disclosed royalties are **$12 million** and fictional total disclosed revenue is **$20 million**, the calculation is **12 / 20 × 100 = 60%**. The result describes that fictional disclosure only. It is not a recurring-revenue benchmark, a target value or a statement about cash collections.

If royalties are combined with fees, the numerator is **unknown**. If only a narrower candidate is under consideration but the denominator covers its parent group, the candidate's royalty share is also **unknown** pending an attributable bridge. Do not repair missing data with outlet counts or a typical contractual rate.

Case Studies and Real-World Examples

An issuer-and-period worksheet (Hypothetical Example)

The following is entirely fictional. No live FDD, acquisition target or source-document URL underlies the figures. The scenario demonstrates how to populate the worksheet without turning parent accounts into subsidiary financials.

An origination record names **Fictional Franchisor LLC** as the candidate. The imaginary FDD exhibit presents **Fictional Parent LLC and subsidiaries**. An attached fictional guarantee refers to franchise-agreement obligations. The researcher should retain these as separate observations, then obtain professional interpretation of the guarantee and a financial bridge to the candidate.

A populated worksheet would read:

- **Source document URL/date:** None, fictional training document; no claim of public availability.
- **FDD version:** Fictional issuance date **April 30, 2026**; amendments and state effectiveness unverified.
- **Issuer and relationship:** Fictional Parent LLC and subsidiaries; parent relationship to candidate stated in the fictional notes.
- **Consolidation:** Candidate included; complete list of other subsidiaries not supplied.
- **Periods:** Fictional balance sheets at **December 31, 2025 and 2024**; operations and cash flows for **2025, 2024 and 2023**.
- **Audit status:** Fictional parent-group report supplied; no separate candidate report supplied.
- **Revenue categories:** Fictional **$20 million** group revenue and **$12 million** royalties; candidate amounts unavailable.
- **Reconciliation:** Fictional outlet schedules use a narrower geography; period and population bridge missing.
- **Confidence and question:** Group figures attributable to the fictional group; candidate figures unresolved. Request an entity-level bridge and reporting-perimeter schedule.

The **60%** fictional royalty-share calculation belongs to the group disclosure. It should not populate the candidate's recurring-revenue field. Even a complete group audit would leave that attribution question unanswered.

Suppose a later fictional schedule identifies the candidate's royalty revenue but gives no candidate total revenue. The worksheet should preserve the new numerator and keep the candidate ratio unknown. If another schedule supplies total revenue for a different fiscal period, that still does not complete the calculation. Both observations can be retained without publishing a mismatched ratio.

The resulting screen can advance to targeted information gathering while keeping the financial conclusion pending. The next request is concrete: the candidate's financial statements or carve-out schedule, the full consolidation list, the revenue-category bridge, and the complete current disclosure package. Nothing in the exercise implies that the fictional business is financially strong or weak, available for acquisition, or compliant with any jurisdiction's requirements.

Implications and Future Directions

An Item 21 screen should create a durable link between a financial observation and its **issuer, perimeter and period**. That link matters whenever research is refreshed, a candidate's transaction scope changes, or a team compares records produced by different analysts.

Document identification deserves particular care. California assigns identifiers to separate franchise programs and notes that a single franchisor may have multiple program identifiers. (dfpi.ca.gov) A program identifier therefore belongs alongside the legal-entity field rather than silently replacing it. Wisconsin's explanation that amendments need not change the issuance date reinforces the need to retain amendment information separately. (dfi.wi.gov)

Refresh controls should follow the actual disclosure framework. FTC staff says the rule does not require continuous updating. (search.ftc.gov) That does not establish the currency of any saved file. When refreshing a record, compare the previously retained package with newly available documents and record what changed in the issuer, reporting periods, notes and accountant's report.

A practical refresh should:

- **Retain:** Preserve the prior document and the financial observations extracted from it.
- **Compare:** Identify changes in issuer, consolidation, periods, audit status and revenue labels.
- **Recalculate:** Recompute a metric only after its inputs remain comparable.
- **Escalate:** Reopen the questions affected by the change and identify the reviewer.

Legal interpretations also require attribution. The FTC FAQ identifies its views as staff opinions that are not binding on the Commission. (search.ftc.gov) State sources address their own jurisdictions. Maryland's ordinary audit requirement, for example, includes specified exceptions; its presence is not a conclusion about an unidentified applicant. (regs.maryland.gov)

The proposed workflow is deliberately limited: it improves the questions entering diligence. It offers no claim that the worksheet predicts deal outcomes or substitutes for financial, commercial or legal review. Future analysis should expand only when actual candidate evidence supports it, with newly resolved fields connected to the documents that resolved them.

Frequently Asked Questions (FAQs)

Does Item 21 always contain the franchisor's standalone accounts?

No. The federal rule provides an affiliate substitution route with a qualifying guarantee, and separately addresses subsidiary interests. (www.law.cornell.edu) Read the issuer and notes before attributing group figures to a candidate.

Does an unaudited statement mean the FDD is deficient?

The federal startup phase-in can allow an unaudited opening balance sheet, while applicable state requirements may differ. (www.law.cornell.edu) (law.lis.virginia.gov) Missing audits should trigger classification and professional review rather than an automatic legal conclusion.

Can outlet sales establish franchisor revenue?

Item 19 concerns outlet financial performance; its figures should remain attached to the stated outlet population. (www.ecfr.gov) The FTC guide also cautions that gross sales do not establish outlet costs or profits. (www.ftc.gov) Request the accounting and population bridge before making a franchisor revenue inference.

What if royalties and initial fees are not separated?

Retain the combined disclosed category and mark the separate amounts unknown. Ask for the supporting schedule and recognition policy. The proposed royalty-share calculation cannot be completed without an attributable royalty numerator and total-revenue denominator.

Conclusion

The defensible output of an Item 21 screen is an **attributable financial record and a specific request list**. Begin with the statement issuer and candidate legal entity. Establish the reporting perimeter, covered periods, accountant's report and relevant guarantee before using the figures in an acquisition screen.

The issuer-and-period worksheet makes the necessary distinctions explicit. Parent-group observations stay with the parent group. A controlled subsidiary's inclusion does not by itself reveal its standalone results. A missing report becomes a classified question, with startup and jurisdictional treatment referred to the appropriate professionals.

Revenue analysis should preserve the categories actually disclosed. Calculate the proposed royalty share only when its numerator and denominator describe the same issuer, perimeter and period. Keep combined fees, unavailable allocations and mismatched periods visible as unknowns. Read income, cash flow, liquidity and

notes together, with each observation connected to its source.

Outlet movement and financial-performance disclosures can sharpen the questions, provided their populations and dates remain attached. Differences should lead to a requested bridge rather than an invented reconciliation.

For a PE origination team, the resulting decision is appropriately narrow: whether available evidence supports further work, and which documents would resolve the remaining questions. A promising narrative does not complete a missing financial field. A disciplined screen preserves what is supported, identifies what remains uncertain, and gives counsel, accountants and the deal team a reviewable starting point.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. https://www.law.cornell.edu/cfr/text/16/436.5
2. https://www.ecfr.gov/current/title-16/chapter-I/subchapter-D/part-436/subpart-C/section-436.5
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About Docket

Docket provides deal-origination research software and managed research for private equity firms. We help investment teams investigate acquisition targets using structured screening criteria, retained sources and reviewable company evidence. Teams can work through a self-serve platform or use managed research, depending on how they want research delivered.

Research against a defined mandate

A useful target list needs more than company names. Docket focuses on the questions that determine whether a company fits an investment mandate, including the evidence needed to support or qualify each answer. Our research approach makes the connection between screening criteria, source material and conclusions visible to the team reviewing the work.

Triage, Scout and Audit

Docket's three named research agents perform complementary tasks. Triage resolves company identity and screens fit. Scout collects sourced answers against the mandate. Audit checks retained evidence, addresses contradictions and leaves unsupported answers visibly unresolved. This structure helps reviewers distinguish established findings from missing information and questions requiring further investigation.

Evidence that supports investment-team judgment

Our research library covers market mapping, screening criteria, private-company data, succession and ownership, source evaluation and evidence standards. These resources explain the methods and limitations behind origination research. Findings support a team's judgment; they do not establish that a company is for sale or guarantee a transaction or investment outcome.

Work with Docket

Visit Docket to explore the platform, managed research and the current contact path. Read about screening criteria, evidence standards, AI research agents and market mapping.

Public examples are illustrative unless explicitly identified otherwise. Research preparation and authorized outreach are separate activities; confidential target lists and customer outcomes should never be inferred from an educational example.

Website: https://docket.capital

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