

# Franchised Outlets Must Maintain their books as per the Confidential Operations Manual

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A franchisee of the franchise system must maintain their financial records, business records and reports in compliance with the confidential operations manual set forth by the franchisor. Each franchisor must make sure that the guidelines for the books, accounting system and business records are understandable and gone over in training. Additionally it would be recommended that such issues were addressed into franchising agreements prior to the commencement of the franchised outlet.

In my franchising company I had inserted a clause to address this very issue. Below you will find the clause that I came up with that became part of every franchise agreement that our company signed;

## 3.17.1 Maintenance of Books; Reports

Franchisee must maintain full and complete records of all business done and revenue Franchisee receives through the Franchised Business in accordance with generally accepted accounting principles employed in the Marketing Area or the United States and the standards and Confidential Operations Manual provided by Franchisor. These records will include, but are not limited to, order sheets, sales agreement forms, daily sales summaries, tax returns, financial statements, and invoices. Franchisee will date, file in consecutive order, retain for a period of five years, and make available to Franchisor for inspection and audit all of Franchisee's records.

Franchisee, if a natural person or persons, will submit to Franchisor a list of all owners of the Franchise Business and the respective interests held by each as of the end of each fiscal year. Franchisee, if a partnership, will submit to Franchisor a list of all partners and the respective interests in Franchisee held by each partner as of the end of each fiscal year. Franchisee, if a limited liability company, will submit to Franchisor a list of all members and the respective interests in Franchisee held by each member as of the end of each fiscal year. Franchisee, if a corporation, will submit to Franchisor a list of all shareholders and the respective interests in Franchisee held by each shareholder as of the end of each fiscal year (provided, however, if Franchisee's shares are publicly traded, the list of shareholders required will include only those owning five percent or more of the shares outstanding). The required report will be submitted to Franchisor within ninety (90) calendar days after the end of Franchisor's fiscal year.

Franchisee will furnish Franchisor with unaudited financial statements for the Franchised Business within ninety (90) calendar days of the end of each calendar year signed by the Franchisee, if the Franchisee is an individual, or the majority partner, shareholder or member of the Franchisee if the Franchisee is a partnership, corporation or limited liability company, which shall include an income statement and balance sheet. If Franchisee is a division of a corporation, then the financial statements need only relate to the operations of such division. These statements must be prepared following generally accepted accounting principles.

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Since this issue is so vitally important to the franchised business model to maintain consistency in control of the franchise system, each franchisor would be well advised to contact the franchising attorney who specializes in franchise systems. Then they might discuss their strategy to make sure that each franchisee is in compliance with such standards in the confidential operations manual. Consider this in 2006. Lance Winslow - Online Think Tank forum board. If you have innovative thoughts and unique perspectives, come think with Lance; [www.WorldThinkTank.net/wttbbs/](http://www.WorldThinkTank.net/wttbbs/)