



Van Wensem, Eakins & George
Certified General Accountants

NEW BUSINESS GUIDE

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CHAPTER 1

SELECTING A LEGAL ENTITY





CHAPTER 1

SELECTING A LEGAL ENTITY

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this decision may be dictated by the way you have organized your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by income tax rules and regulations. There are three basic forms of business organizations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole Proprietorship

A sole proprietorship is typically a business owned and operated by one individual. A sole proprietorship is not considered to be a legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The income or loss of a sole proprietorship is combined with the other earnings of an individual for income tax purposes.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organization, except of course, the normal requirements such as licenses or permits. A sole proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's abilities.

Partnerships

Partnerships can take two legal forms, general or limited. In a general partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

A limited partnership is comprised of one or more general partners who are personally liable for partnership debts and one or more limited partners who contribute capital and share in the profits or losses of the business. The limited



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partners do not take a part in running the business and are not liable for the debts of the partnership.

The rights, responsibilities, and obligations of both the limited and general partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership, whether limited or general.

A partnership is a legal entity recognized under the law and as such it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit, and borrow money. When a partnership is small most creditors require a personal guarantee of the general partners for credit.

A partnership is required to file an information return under certain conditions (see Chapter 6 Income Taxes). A partnership typically does not pay income tax; the information from the tax return is combined with the personal income of the partners to determine the overall tax liability.

Corporation

A corporation is a separate legal entity which exists under the authority granted provincially or federally. A corporation has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file income tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a corporation are protected from the liabilities of the business. However, when a corporation is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded the owners of a corporation can far outweigh the additional expense of starting and administering a corporation.

A corporation must adopt and file articles of incorporation and by-laws which govern its rights and obligations to its shareholders, directors, and officers. It must also file an annual report with the appropriate jurisdiction.

Corporations must file annual income tax returns with Canada Customs and Revenue Agency and possibly the other provinces in which it does business.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of equity, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their interest.

Should you decide to incorporate your business venture, you should seek the advice of competent legal counsel and business oriented accountants.

CHAPTER 2

REGISTERING WITH TAX AND OTHER AUTHORITIES





CHAPTER 2

REGISTERING WITH TAX AND OTHER AUTHORITIES

Registrations

A significant task for the new business owner is assuring that the business is properly complying with the extensive tax and information filing requirements imposed by various governmental agencies. Stiff penalties are commonly assessed if the required forms and returns are not properly prepared and timely filed. There are several forms required to be filed when the business is started. While the checklist below is not intended to be an all inclusive list of the filing requirements, it summarizes some of the more prominent requirements common to most businesses. Many industries have specific filing requirements which are not part of this text, but which nevertheless, must not be overlooked. Professionals with experience in your industry should be consulted to assure that any such filings are properly handled.



BUSINESS REGISTRATION CHECKLIST

Income Tax

Everyone must file an annual income tax return including:

- Corporations
- Partners
- Sole Proprietors

If you are incorporated, you must [register](#) with Canada Revenue Agency (CRA) to open a corporate income tax account

GST (Goods and Services Tax)

Any business with billings of at least \$30,000 in four consecutive calendar quarters must [register](#) for and collect GST. Even if your billings are less than this amount, it may be to your advantage to register.

PST (Provincial Sales Tax)

Anyone selling taxable property or providing certain specified services in British Columbia must [register](#) for and collect the PST.

WCB (Workers Compensation Board)

All incorporated businesses and any business employing labour must [register](#) with the Workers Compensation Board of British Columbia (or other jurisdiction) and remit based on annual payroll.

Payroll

Any business or individual employing any person at any time must [register](#) with the CRA as an employer and withhold income tax, Canada Pension, and Employment Insurance. Withholdings must be remitted within a specified period, usually by the 15th of the month following the withholding.

Independent Contractors

Make sure that if you hire independent contractors, that those you hire cannot be construed to be in fact employees, as you may be forced to remit taxes, CPP and EI that you *should* have withheld. CRA publishes a useful publication, “Employed or Self-Employed” [RC4110](#), to help determine the status of workers. If you work in the construction industry, you must report all payments to sub-contractors to the CRA annually, using forms [T5018](#) and [T5018 Summary](#).

Business License

To operate a business, you must obtain a business license, obtainable from the city or municipal hall where you operate your business.



Tax Calendar

The calendar below sets out the principal dates provided by general law or regulation for filing federal returns or paying federal taxes, while the contingent calendar sets forth the principal requirements not falling upon fixed dates, but in relation to some other event or duty (unless concurrent).

This day
each month **MONTHLY REQUIREMENTS**

- | | |
|------------------|--|
| 10 th | Employers with an average monthly withholding of \$15,000 for the second calendar year preceding a particular calendar year or more but less than \$50,000 must remit source deductions withheld from payments made after the 15 th of the previous month. For employers whose average monthly withholding is \$50,000 or more, remittances must be made within three days, not counting Saturdays or holidays, of each of the following periods: (i) the first seven days of the month; (ii) the period after the 7 th and before the 15 th day; (iii) the period after the 14 th but before the 22 nd day; and (iv) the part of the month after the 21 st day. |
| 15 th | Employers with an average monthly withholding of under \$15,000 must remit tax deducted at source from employees' wages for a previous month. Commencing October 1997, employers with average monthly withholding of under \$1,000 for the first or second preceding calendar year, perfect compliance records for the preceding 12 months, and no outstanding GST/HST returns or T4 information returns for the previous 12 months may remit on a quarterly rather than monthly basis. |
| 25 th | Employers with an average monthly withholding of \$15,000 or more but less than \$50,000 must remit source deductions withheld from payments made before the 15 th of the month. |
| Last Day | Instalment payments of corporation income tax due. |

QUARTERLY REQUIREMENTS

15th **Jan., April, July, & Oct.** – Employers with an average monthly withholding of under \$3,000 (\$1,000 before 2008) for the first or second preceding calendar year, perfect compliance records for the preceding 12 months, and no outstanding GST/HST returns or T4 information returns for the previous 12 months, remit tax deducted at source from employees’ wages for the preceding three months.

March, June, Sept., & Dec. – Income tax instalments due from individuals who normally owe more than \$3,000 (\$2,000 before 2008) in federal and provincial income tax after credit for amounts withheld at source.

Date ANNUAL CALENDAR

Feb. (last day) Payers’ income tax information returns due respecting wages, interest, dividends and annuities.

Return of investment income (summary), statement of investment income (supplementary) due.

Mar 15th Due date of a return by a person in Canada who is an agent and who derives income from sources in the United States on behalf of a person whose address is outside of Canada.

Mar. 31st Returns re: payments to non-residents made or received on their behalf in the preceding calendar year.

Due date for partnership returns if non-corporate members and less than five months after end of fiscal period.

Due date for trust income tax returns for all *inter vivos* trusts and other calendar year trusts.

April 30th Individual income tax returns due (unless an individual or spouse carried on business in the taxation year), and final payments due from all individuals.

June 15th Individual income tax returns due from an individual who carried on business in the year and the spouse of such individual (but final payment was due April 30).

June 30th Due date for income tax return of corporations operating on a calendar year basis.

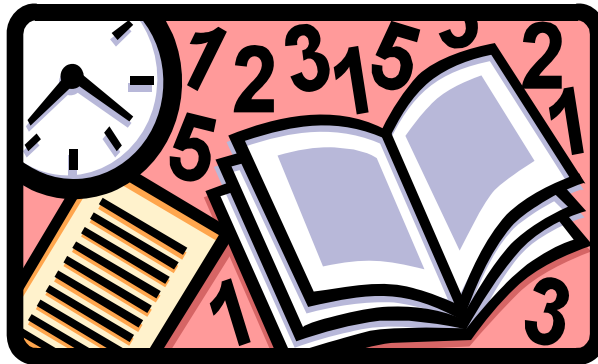


CONTINGENT CALENDAR

- ♦ Corporations on non-calendar year basis whether or not active, and whether or not liable to pay tax, to make returns within six months after close of fiscal year.
- ♦ Partnerships to make information returns within five months of end of fiscal period (but no later than March 31 of following calendar year if there are non-corporate members).
- ♦ Testamentary trusts must file trust returns and pay any tax owing within 90 days from the trust's year-end.
- ♦ Final tax payment for most corporations due on the last day of the second month following fiscal year-end.
- ♦ Final tax payment for Canadian-controlled private corporations with less than \$400,000 of taxable income (including that of associated corporations) in the immediately preceding taxation year is due on the last day of the third month following fiscal year-end.
- ♦ Return of additional information due within time specified in the Minister's letter of request.
- ♦ Payments by taxpayers leaving Canada due forthwith upon receipt of Notice from the Minister served personally or by registered letter.
- ♦ Notices of Objection from corporate and personal assessments must be served within 90 days of date of assessment or re-assessment.
- ♦ Notice of Appeal to the Tax Court of Canada must be filed within 90 days of mailing of confirmation of assessment by the Minister and may be filed after 90 days of mailing of Notice of Objection if the Minister has not replied.
- ♦ Amounts deducted at source from employees' wages, must be paid by the employer within seven days of the day he ceases to carry on business.
- ♦ Financial companies paying interest on the transfer of securities make returns on or before the fifteenth day of the month following the month of payment.
- ♦ Refunds can only be ensured for returns filed within three years of the end of the year to which they apply; where returns have been filed and refunds remain unpaid, application may be made at any time before the returns become statute-barred.
- ♦ Unpaid tax due within 30 days from date of mailing Notice of Assessment.

CHAPTER 3

ACCOUNTING AND BOOKKEEPING



CHAPTER 3**ACCOUNTING AND BOOKKEEPING**

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, lawyer, or inventor. Unfortunately most people don't like to keep the books. As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organized financial records cannot be over-emphasized. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions should be answered for government or regulatory taxing authorities?

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.

Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart which helps establish the information which will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes. Refer to the illustrative chart of accounts at the end of this chapter.



To help establish a good working chart of accounts you need to answer some questions, **in conjunction with your accountant**, as to how your business will operate, and what is important to you. Some of these considerations might be:

1. Will your business have inventory to account for? If so, will it be purchased in final form or will there be production costs?
2. Are fixed assets a significant portion of your business?
3. Will you sell only one product or service or will there be several types of business?
4. Will you have accounts receivable from customers which you will need to track?
5. Are you going to sell in only one location or will you do business in several locations?
6. Are the products you sell subject to sales taxes?
7. Do you need to track costs by department?
8. What type of government controls or regulatory reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business; the amount of time and money which a well organized accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

Cash or Accrual Accounting

One of the decisions to be made as you start a business, is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in “the cigar box” at the end of the month, is how much you made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will



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incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are accustomed to accrual basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash basis statements.

Accounting Records and Record-Keeping

Another question which the owner of a business must answer is “Who will keep the books of the business?” Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record-keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque signing function and scrutinizing certain records. Your company’s accountant can help develop a good program of record keeping duties for you, your employees and any outside bookkeepers you may engage.

Retention of Books and Records

In general (*other than certain books and records prescribed in Income Tax Regulation 5800*) records and books of account have to be kept for a minimum of six years from the end of the last tax year to which they relate. i.e. when a record may be required for purposes of the income tax act, not necessarily when the transaction occurred and the record was created. For example, records supporting the acquisition and capital cost of investments and other capital property held by a person should be maintained until the day that is six years from the end of the last tax year in which such an acquisition could enter into any calculation for income tax purposes.

Contact your accountant or Canada Customs and Revenue Agency before destroying any of your business books or records.

A Word About Computers

The computer is probably the single most valuable invention for bookkeeping and accounting since the advent of double entry bookkeeping. If your business includes any of the following then a computer would be a useful tool in your business.

1. Many repetitious or routine tasks
2. Lots of paperwork; i.e., payroll cheques, invoices, purchase orders, mailing labels.
3. Lots of general correspondence
4. Written reports, contracts, newsletters, catalogues or brochures.

Your accountant knows both your business and computers so he or she can take much of the confusion out of the selection process by assisting you in the purchase and installation of your computer and software.

There are a number of very good, easy to use accounting software systems which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. This is one of the reasons that the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer based accounting package, either in your own business, with a service bureau or through your accountant, it is imperative that you generate accurate information to be entered into the system. Discuss the choice of computer based accounting software with your accountant prior to purchase, as all software is not created equal.

The real value of the computer becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a “number cruncher”, but as your business advisor, consultant, and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analyzing your business to make it more profitable.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise which helps to ensure that the company’s assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you’re operating as a “one man shop” or at least



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handling all of the company's financial transactions, maintaining good internal accounting control is relatively straight forward.

However, when your company grows to the size where you must delegate some of the functions it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "yes" to the following questions:

1. When my company provides goods or services to our customers, am I sure that the sale is recorded and the revenue is recorded in accounts receivable or the cash is collected?
2. When cash is expended by my company, am I sure we received goods or services?

The methods used to ensure that these two questions can be answered affirmatively will vary widely. The solution in your particular instance may be as simple as numbering the sales tickets and being sure **ALL TICKETS ARE ACCOUNTED FOR** or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well run business. As the company grows you will need to consider concepts such as segregation of authority as well as bonded employees or controlled access storerooms. These are essential stepping stones to maintaining good control in your business.

No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.



Illustrative Chart of Accounts

Current Assets:

- 1010 Petty cash
- 1110 Banking
- 1200 Accounts receivable
- 1255 Allowance for doubtful accounts
- 1300 Inventory
- 1350 Prepaid expenses

Capital Assets:

- 1711 Leasehold improvements, cost
- 1715 Accumulated amortization -leaseholds
- 1731 Equipment, cost
- 1735 Accumulated amortization -equipment
- 1741 Furniture and fixtures, cost
- 1745 Accumulated amortization -furniture & fixtures
- 1771 Vehicle, cost
- 1775 Accumulated amortization -vehicle
- 1781 Computer hardware, cost
- 1785 Accumulated amortization -computer hardware
- 1791 Computer software, cost
- 1795 Accumulated amortization -computer software

Current Liabilities:

- 2000 Line of credit
- 2050 Accounts payable
- 2200 GST payable
- 2250 PST payable
- 2300 Payroll deductions payable
- 2310 Wages payable
- 2340 Accrued vacation pay
- 2350 WCB payable
- 2600 Corporate taxes payable

Long-Term Liabilities:

- 2700 Bank loans
- 2800 Mortgage payable
- 2950 Shareholder loan(s)



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Shareholder's Equity:

3000 Share capital
3640 Dividends paid
3999 Retained Earnings

Revenue:

4000 Sales
4070 Returns and allowances

4700 Interest income
4750 Other income

Cost of Goods Sold:

5200 Purchases
5600 Direct labour
5650 Subcontracting – direct
5700 Freight

Expenses:

6000 Advertising and promotion
6100 Amortization
6300 Bad debts
6800 Licenses, dues and permits
7600 Insurance
7700 Interest and bank charges
7800 Leases and rentals
8400 Management compensation
8600 Office
8700 Professional Fees
8720 Rent
8800 Repairs and maintenance
8950 Subcontracting
8900 Supplies
9100 Telephone and communications
9200 Travel
9500 Utilities
9700 Vehicle
9800 Wages and benefits

9950 Income taxes

Tip: If you use Quickbooks, we have an available chart of accounts template that you can use to easily create your data file for your company.

CHAPTER 4

PAYROLL DEDUCTIONS





CHAPTER 4

PAYROLL DEDUCTIONS

As an employer, you are responsible for deducting federal and provincial income taxes, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums, from your employees' pay cheques. You are also responsible to determine whether each individual that works for you is considered employed or self-employed.

Available Publications

[RC4163\(E\)](#) Employers' Guide Remitting Payroll Deductions;
[T4032-BC](#) Payroll Deductions Tables;
[T4130\(E\)](#) Employers' Guide Taxable Benefits; and
[BC 4120\(E\)](#) Employers' Guide Filing the T4 Slip and Summary Form.
[RC4110](#) Employee or Self-Employed?
[TD1](#) Personal tax credits forms

These publications cover the payroll deduction reporting and deposit requirements and can be obtained through the local office of the Canada Customs and Revenue Agency.

The Canada Revenue Agency also has available a useful [Payroll Deductions Online Calculator](http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/pdoc-eng.html) on its website at <http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/pdoc-eng.html>

Income Taxes

Income Taxes deducted from employees' income is remitted to CRA (see payroll deduction payment requirements below).

Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

Both employees and employers contribute the CPP or the QPP. CPP or QPP is deducted from employees' income, the contribution is then matched by the employer and remitted to CCRA. The contribution rate changes from year to year.



Employment Insurance (EI)

Both employees and employers pay employment insurance premiums. EI is deducted from employees' income, the employer then uses a multiplier of 1.4 to calculate their premium, combines the two and remits the premiums to CCRA. The premium rate changes from year to year. {There are certain types of employment which are not considered insurable and for which you do not deduct EI premiums. See the Employers' Guide - Payroll Deductions (Basic Information)}.

Tip: A list of current and historical Canada Pension and Employment Insurance rates are available on our website at:

<http://www.vweg-cga.com/files/PPP%20and%20EI%20rates%20to%202008.pdf>

Payroll Deduction Payment Requirements

1. **Regular (monthly) Remitter** - An employer with an average monthly withholding of less than \$15,000, will remit deductions on or before the 15th day of the month following the month in which deductions were made.
2. **Quarterly Remitter** - An employer that reported an average monthly withholding amount of less than \$3,000 (\$1,000 prior to 2008) in either the first or second preceding calendar year, has a perfect compliance history in the previous 12 month, and has no outstanding GST/HST returns or T4 information returns for the previous 12 months may be eligible to remit quarterly. The quarters are calendar quarters and remittances are due the 15th day of the month immediately following the end of each quarter. CCRA will notify eligible employers by mail. New employers are eligible for quarterly remitting only after 12 months of business.
3. **Accelerated Remitter – Threshold 1.** An employer that reported an average monthly withholding amount of \$15,000 to \$49,999.99 in the second preceding calendar year, before the current calendar year. Remittances are due by the 25th of the month for deductions made in the first 15 days of the month. For deductions made from the 16th to the end of the month, the remittance is due by the 10th day of the following month. If your remittance due date is a Saturday, Sunday, or holiday, your remittance is due on the next business day.
4. **Accelerated Remitter – Threshold 2.** An employer that reported an average monthly withholding amount of \$50,000 or more in the second preceding calendar year before the current calendar year. Remittances deducted are due by the third working day (not counting Saturdays, Sundays, or holidays) after the end of the following periods:
 - from the 1st through the 7th day of the month;
 - from the 8th through the 14th day of the month;

- from the 15th through the 21st day of the month; and
- from the 22nd through the last day of the month.

Threshold 2 employers have to make payments at a Canadian financial institution. As of February 26, 2008, Threshold 2 employers may make their payments at a tax services office or tax centre, however they must be received at least one *full day before* the due date to be considered on time. Payments made on the due date, but not at a financial institution, are subject to a penalty equal to 3% of the amount due.

Note:

Where a corporation is associated with one or more corporations in the current year, the associated corporations remittances affect the average monthly amount. The definition of associated corporations in the Income Tax Act applies in this situation.

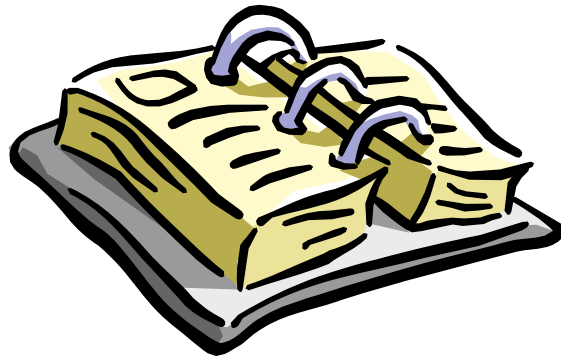
End of Year Reporting Requirements

Following a year in which a wage payment is made, the employer must provide the employee with a statement of the gross wages and specific deductions on form T4 Supplementary. The [T4 Supplementaries](#) along with a [T4 Summary](#) must be filed with CRA no later than the end of February following the calendar year to which the forms relate. The employees must also receive their copies of the T4 Supplementary by the same deadline.

The payroll tax requirements and the work related to compliance are quite cumbersome and complicated. Once a business employs more than a few people, we recommend that a qualified payroll service be used because it has generally been our experience that the cost of the service far outweighs the personnel and management time required to operate the payroll system in house.

CHAPTER 5

SELECTING A YEAR-END





CHAPTER 5

SELECTING A YEAR-END

If the new business is a sole proprietorship or a partnership, the business will be required to use a calendar year-end. However, if the business is incorporated, the corporation is allowed to select a fiscal year-end using a month end (or any other day throughout the month) other than December. (Except where the corporation is a professional corporation and a member of a partnership, in which case a calendar year-end is required.)

Which Month to Choose

The selection of a year-end involves several considerations.

One consideration involves the nature and seasonal fluctuations of the business. As a general rule, the year-end causes a disruption to the normal course of business, especially if a physical inventory is required. It is usually better to have this disruption occur during the off-season. Also, since the periods just before and just after year-end often involve an additional time commitment by the key officers, a year-end that does not conflict with normal vacation schedules is preferable.

There are also tax reasons to select a year-end other than December 31st. If the company has, for example, a July 31st year-end, it is possible for the corporation to declare bonuses in July to obtain a tax deduction. The employer then has 179 days to pay out the bonus thereby deferring personal income tax until the following calendar year.

Proper planning in selecting a year-end can also defer the payment of taxes at the corporate level. Suppose the company incorporated in July and operated at break-even through the next April, but expected May and June to be big income months. By selecting a March or April year-end, the company can delay for ten months the payment of taxes on the May and June income. Since cash is often scarce for a start-up company, this deferral can be of significant benefit.

The choice of a year-end is made on the first tax return of the corporation. Even though the corporate by-laws often disclose the fiscal year and the request for a BIN asks for the year-end, a final determination need not be made until the tax return is filed. The corporation merely states the fiscal year on page one of Form T2. The first year can not be longer than 53 weeks.

Changing the Year-End

Once a year-end is selected, it may be changed under certain conditions with the prior approval of the Canada Revenue Agency. In considering a request for change of year-end, the Canada Revenue Agency will look closely at the business



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or economic reasons for the change. The absence of a tax avoidance motive is generally a requirement.

Certain corporate events will require a change of year-end. For example, if the company's shares are acquired by another corporation, there will be a deemed year-end immediately before the date of acquisition.

CHAPTER 6

INCOME TAXES





CHAPTER 6

INCOME TAXES

Eventually you will have to deal with income taxes. The income tax laws are extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, however it provides some guidance on complying with the laws. A qualified CGA or tax lawyer should be consulted when you are dealing with income taxes. Income taxes have a direct result and a potentially significant impact on the cash flow of your business.

Income Tax Forms

Each type of legal entity is required to file a different type of income tax form.

Corporation. A corporation is considered a taxable entity and is required to file a Federal Form [T2](#) and provincial forms as required.

Partnership. A partnership is not a taxable entity. It is treated as a conduit through which taxable income is passed to the individual partners for inclusion in their respective tax returns. The partnership is required to file form [T5013](#) Summary Partnership information return, and individual T5013 slips for each partner, if the partnership:

- has six or more partners at any time during the fiscal period;
- is a tiered partnership (a partnership which has a partner that is itself a partnership); or
- invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership.

No tax is due with this form.

Sole Proprietorship. A sole proprietorship is considered to be a component of the individual's personal tax situation. The tax form required would be one of the following:

- [T2032](#) Professional Activities
- [T2042](#) Farming Activities
- [T2121](#) Fishing Activities
- [T2124](#) Business Activities

which is included with the owner's Form T1. In addition, if the business has net taxable income, then a [Schedule 8](#) CPP on Self Employment and Other Earnings



must be prepared to determine the amount of Canada Pension Plan Premiums that are due.

Tax Instalments

Corporate

Available Publications

[T7B-CORP](#) Corporation Instalment Guide

Most corporations are subject to tax under Part 1 of the Income Tax Act. Corporations have to pay their Part 1 income tax in monthly instalments.

There are three options you can use to calculate the amount of tax your corporation has to pay in instalments for the current taxation year. You can calculate:

- ♦ the estimated tax for the current year (Option 1);
- ♦ the tax for the preceding taxation year (Option 2); or
- ♦ a combination of the tax for the year before the preceding year, and for the preceding year (Option 3).

For all three options, you base the calculation on the total tax you have to pay under Parts I, I.3, VI, and VI.1 of the Act, and the tax you have to pay to your province or territory.

Canadian controlled private corporations may be eligible to remit their taxes quarterly (see below).

Unlike other provinces and territories, Quebec, Ontario, and Alberta do not have corporate tax collection agreements with the federal government. Corporations that earned taxable incomes in these provinces have to pay their provincial taxes directly to these provinces.

Option 1 – One-twelfth of the estimated tax payable for the current year is due each month of the taxation year.

Option 2 – One-twelfth of the actual tax payable from the preceding year is due each month of the taxation year.

Option 3 – One-twelfth of the actual tax payable for the year before the preceding taxation year is due in each of the first two months of the taxation year. One-tenth of the difference between the total of the first two payments and the actual tax for the preceding year is due in each of the remaining 10 months of the taxation year.

NOTE:

Interest may be charged if you use Option 1, and your estimated tax was lower than the year's actual tax and the tax calculated using Option 2 or 3.

You can use the option that is most advantageous to you. CRA will assess your return using the option that results in the least amount payable by instalments. In the first year after incorporation, the instalments due are nil, as under Option 2 there was no tax due for the preceding taxation year.

When Instalments Not Required

Instalments are not required if the income tax instalment threshold is less than \$3,000.

Instalment Due Dates

Instalment payments are due at the end of each month of the year. It is the CRA's position that the end of each month means the end of each monthly period measured from the first day of the corporation's taxation year. Consequently, the first instalment payment is due one month less a day from the first day of the corporation's taxation year and subsequent instalment payments are due on the same day of each of the following months.

Canadian Controlled Private Corporations

For years starting after 2007, eligible Canadian-controlled private corporations may make their instalments quarterly if, at the time the payment is due:

- It has a perfect compliance history;
- It has claimed the small business deduction for the current or previous tax year;
- It has taxable income of \$400,000 or less; and
- It has taxable capital employed in Canada for the year of \$10 million or less.

If eligible, is may use one of the following options:

Option 1 - One-quarter of the estimated tax payable for the current tax year is due each quarter of the tax year.

Option 2 - One-quarter of the tax payable from the previous tax year is due each quarter of the current tax year.

Option 3 - One-quarter of the tax payable from the year before the previous tax year is due the first quarter of the current tax year. One-third of the difference between the tax for the previous tax year and the first payment is due in each of the remaining three quarters of the current tax year.



Balance Due Dates

The balance due date is the date a corporation has to pay the remainder of the tax it owes for the taxation year. Arrears interest is charged on any amount the corporation did not pay from the balance due date to the payment date.

For Parts I, I.3, VI, and VI.1 tax payable, the balance due date is two months after the end of the taxation year. However, the time limit is three months if **all** of the three following conditions apply:

- Your corporation deducted the federal small business deduction in the taxation year, or in the immediately preceding taxation year.
- Your corporation is a Canadian-controlled private corporation (CCPC) throughout the taxation year.
- Your corporation's (and associated corporations') taxable income for the preceding taxation year was not more than its business limit for the preceding year.

Individual

Available Publications

[P110](#) – Paying your tax by Instalments

Income tax instalments are required for the year, if in the year, and either of the prior year or prior year minus one, your net tax owing is more than \$3,000 (\$2,000 before 2008).

There are three instalment payment options:

- no-calculation option (see below)
- prior-year option
- current-year option

If your income, deductions, and credits (and net tax owing) remain about the same from year to year, the **no-calculation** option is probably best.

However, if your income, deductions, and credits (and your net tax owing) change significantly from year to year, you may want to calculate your instalments using the **prior-year** or the **current-year** option. This will ensure that you do not overpay your tax (if net tax owing **decreases**) or have a large amount of tax to pay when you file your return (if net tax owing **increases**).

You do not have to let CCRA know which option you will use.



No-Calculation Option

The no-calculation option amounts are provided by CCRA on instalment reminders that are sent out in February and August. The February reminder will show the amounts for the March 15 and June 15 due dates. The August reminder will show the September 15 and December 15 amounts. If you choose this option, just pay the amounts shown on the reminders by each due date.

Due Dates

The due dates of the various Federal and Provincial forms are:

Corporate

Form T2 (Federal Corporation Income Tax Return);
Form AT1 (Alberta Corporate Income Tax Return);
Form CO-17-V (Québec Corporation Income Tax Return);
and Form CT23 (Ontario Corporations Tax Return), are all due on the last day of the sixth succeeding month where the taxation year-end is the last day of a month. Where the year-end date is other than the month end the forms are due on the same day of the sixth succeeding month.

Partnership

Where all partners are individuals the due date for form T5013 information return is on or before March 31 following the calendar year in which the fiscal period of the partnership ended.

Sole Proprietorship

Form T1 is due by April 30th of each year, except where an individual has earned income from a business during the year. In this case, the individual and their spouse have until June 15th to file, although payment of tax is still required by April 30th.

Tax Planning

Proper tax planning is essential in order to make the most of the income tax laws. You will probably need to develop a relationship with a qualified professional who has experience with the taxation of your type of business. Tax planning is not a one-time shot right before the return is due. Tax planning is a year-round endeavor requiring communication on both sides – you and your CGA. Proper planning ensures that there are no surprises when the return is filed.



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Provincial and Foreign Taxes

If your company will be doing business in more than one province or outside the country, it is essential that you familiarize yourself with the tax laws and filing requirements of those jurisdictions. Each has its own rules and regulations; if you are in non-compliance, you may be barred from doing business in that jurisdiction.

Conclusion

Income tax laws are quite complicated. The amount you may save by attempting to tackle your own taxes, particularly as they relate to a business, can be greatly overshadowed by the expense you may incur if you make a mistake. This axiom takes on greater significance when the return is for a corporation – especially the first return. However, a far greater consideration than potential mistakes, is missing opportunities which may be available to you and your business.

CHAPTER 7

CASH PLANNING AND FORECASTING



CHAPTER 7**CASH PLANNING AND FORECASTING**

CASH IS KING! The life blood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors, and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or an outside consultant can be no more than a guess as to when the customers will pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales which will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine tuned as possible. It is typically unrealistic to assume that there is a million dollar market for your product in your area and you will be able to capture a specified percent of it. A sales forecast needs to be based upon specific facts. These might include your sales history or the history of similar businesses you have owned or operated or the competition. In your area of industry, what has been the experience of similar operations?

Some of the questions which should be addressed would include: What other factions can I control, such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy, and the period over which you forecast.

Obviously your ability to forecast sales for the next month is better than it is to forecast three to five years from now. The amount of detail which must be included in the cash forecast is really a matter of preference. It can be based on per-unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.



Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what

percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry accounts receivable? For those that are receivable based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard take the customers account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of receivables you must determine what portion of the receivables will be collected in thirty days, sixty days, ninety days, and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Disbursements

Certainly if your business entails sales of inventory you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first dollar of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be deposited.

Additionally, you need to know the credit trade terms your vendors are willing to advance to you. Do you have to pay for inventory items on a COD basis or can you pay for them thirty or forty-five days after receipt?

What expenses must be paid to allow you to convert purchased merchandise to salable inventory? If your production requires utilities to run machines or supplies that are required such as dispensable chemicals or packing materials



that must be purchased prior to the sale of the inventory you should factor the timing of payment.

In addition to the cost of manufacturing, you should consider whether your productive capacity will allow you to generate enough inventory to support the level of sales which you are predicting. If the volume of sales you forecast is above and beyond your ability to produce today, what changes in your operating environment must be made to meet the production levels. Will you need additional employees, if so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one time expenses. This may be lawyer's fees for drafting partnership agreements or incorporating your business, the cost to obtain business licenses, setting up an accounting system, stationary costs, and costs of signs or logos.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you from moving forward with your business endeavor. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments.

As we have discussed in other chapters, there may be a variety of financing alternatives which are available to you. Most of the start-up costs which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analyzed and factored into your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will



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collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favorable ones.

Cash flow projections can be very slow, time consuming, and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only **help**. You as the owner and operator of the business are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections the more accurate they will tend to be. This exercise may also help you to pin-point areas of potential cash savings which you had not otherwise considered.

We have included a worksheet following this chapter which may assist you in developing a cash flow analysis. Bear in mind however, this worksheet does not include all the items that should be considered in preparing **your** cash flow analysis but should help raise many of the questions which you need to ask yourself before deciding how much cash will be required to establish and operate your business and what period of time must elapse before you can expect to pay back the lender or return profits to your investors.



PROJECTED MONTHLY STATEMENT OF OPERATIONS (for one year)

	<u>Projected Month Ending</u>												
	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th	11 th	12 th	TOTAL
Sales													
Cost of sales													
Expenses													
Amortization													
Bank charges & interest													
Rent													
Salaries & benefits													
Other operating expenses													
Net income before tax													
Income tax expense													
Net income													



PROJECTED STATEMENT OF CASH FLOW (for one year)

	<u>Projected Month Ending</u>												
	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th	11 th	12 th	TOTAL
Net income													
Add (deduct) items not requiring cash:													
Amortization													
Net Cash Provided													
Increase (decrease) in cash:													
Accounts receivable													
Inventory													
Property and equipment													
Accounts payable													
Accrued income taxes													
Preferred shares													
Increase (decrease) in cash													
Net change in cash													
Cash beginning of period													
Cash end of period													

CHAPTER 8

***OBTAINING CREDIT AND FINANCING
FOR YOUR BUSINESS***



CHAPTER 8**OBTAINING CREDIT AND FINANCING FOR YOUR BUSINESS**

If you are not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or for instance, the funds you require may be for expansion or working capital during the off season.

Generally business financing can take two forms, debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a corporation, issuing additional common shares, options or warrants to investors. It is typically a prudent idea to consult with your lawyer as there are many significant legal ramifications to such a step.

How Do I Get the Money

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

1. **How much cash do I need?** To answer this question you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your vendors. You will also have to factor into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don't need to pay it back but your co-owners will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.
2. **What will you do with the money?** One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product. Again, part of the answer on how you spend the money is how it will benefit the company.

3. **What experience do you have in running your business?** One of the primary reasons for business failure is lack of experience and management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

4. **What is the climate for your type of business and your geographic location?** Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions which are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or equity. There are positive and negative aspects to each type of capital. The cost to your company of each type of funding is different as is the way in which they are treated for income tax purposes. The interest on borrowed money is deductible by a business for income tax purposes, which reduces the effective cost to your company. Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want and generally will have a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In conclusion we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. A good business oriented accountant can discuss these and other alternatives in greater detail.

Debt Financing Sources

Banks. The first source of funds which typically comes to mind when borrowing money is a bank, that is why they are in business. Banks typically lend to small businesses on a secured basis using equipment, inventory or accounts receivable. The more liquid and readily salable the assets you have to offer as security the more acceptable they are likely to be to a banker. Loans from a bank may take several forms such as:

1. A line of credit which renews annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.
2. A short term demand note which is payable in full on a specified date.
3. A term loan for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker becomes better and your business becomes established, you may consider a long-term (3 to 5 years) loan which will be payable in monthly installments.

Lease financing. In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

Trade credit. A very important source of financing for your company may be from the vendors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or in some instances they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instances before you pay for them. The trade credit you build today will be relied upon by other vendors as you attempt to establish yourself with other vendors in the future. Trade credit terms will vary depending on the type of purchase you make, the supplier's industry, and the industry you are in.



Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of common or preferred shares or shares warrants. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture capital companies. A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors which may be individuals or corporations. The investors are often represented by a management group which evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require. A

venture capital firm sometimes requires a 300 to 500 percentage return on its investment over a four to five year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what they must receive at the time the investment will be sold to allow them to achieve the necessary rate of return.

Based upon the operating projections you provide, discounted based on their experience, they will estimate what your company might be worth at the time the investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentage of the company they must own to realize the return desired. At this point, the “horse trading” generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve the investment goals and have some control over how the money is spent. This will often be achieved by voting power and representation on the Board of Directors. At the same time a venture capitalist wants to be sure there is sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often



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provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

Private individuals. Very often, individuals who are successful in their own right and have accumulated substantial wealth, may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contacts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only their own interests to serve as opposed to a financial backer or group of investors.

Individual investors can be more flexible in the type of investment structure they can deal with, and often have personal, financial and tax motivations to consider.

CHAPTER 9

INSURANCE



CHAPTER 9***INSURANCE***

Business insurance, like many types of expenditures is one of those items which business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity which you purchase. Your accountant and insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks which could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general, and product liability.

Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Self insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies which you do buy. Often, raising the deductible can have a very favorable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high, consequently the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizable deductible amount. An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts.

Required Policies

Very little insurance coverage is mandatory. The only insurance coverage typically required is worker's compensation which covers injuries to employees while on the job. The Worker's Compensation Board can explain the required coverage, the rating systems, and assist you in registering. Proprietor and partners coverage is optional, however, if you have employees or use sub-contractors, who do not have their own coverage, then you must register.

You must also be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies which you may wish to consider. The specific coverage provided by each and the related costs can be explained in depth by a qualified insurance broker.

Some of the types of insurance coverage which you might consider for your business are listed below:



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Business Interruption. This coverage, as the name implies, covers the loss of revenues your business would generate if you were forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shut-down of operations.

Umbrella Coverage. This type of insurance covers losses above and beyond the limits of other policies which you carry. Umbrella policies usually pertain to liability of various sorts and are usually valuable if your business or you have a net worth which requires protection in the event of a catastrophic loss.

Insurance is like any other product which you purchase. Before purchasing it you should consult with more than one broker as to your needs for protection. You should discuss insurance needs with acquaintances in the same or related business as yours. Before buying coverage you should check out the reputation of the company that is underwriting the policy.

CHAPTER 10

SELECTING PROFESSIONAL ADVISORS





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CHAPTER 10

SELECTING PROFESSIONAL ADVISORS

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilize is the expertise of a specialist. The right accountant and lawyer can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first rate quarterback (you) won't guarantee a winning team without a first rate line of defense. The right accountant and lawyer **is** your best defense. Their expertise can help save you money which in turn can be used to increase profits.

When enlisting the expertise of an accountant and lawyer you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to as they devise strategies to help you succeed.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

We wish you success and welcome you to the wonderful world of free enterprise.

CONCLUSION





Van Wensem, Eakins & George
Certified General Accountants

NEW BUSINESS GUIDE

CONCLUSION

You now have a handy reference guide to starting a business. With it you should be able to successfully handle many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas in which you are not sure. The benefit will far outweigh the cost. Good luck!