

BUSINESS PLAN GUIDE

Have a new business idea?

Need financing to expand?

Is your dream viable?

HERE IS HELP...

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DO YOU HAVE WHAT IT TAKES TO BE AN ENTREPRENEUR?

Self-employment is a BIG STEP to take. Success requires passion, skills, sacrifice, money and a little luck. It's important to carefully consider how self-employment may affect you and your family.

SELF-ASSESSMENT QUESTIONNAIRES ON-LINE:

You can find a detailed assessment and rating guide on the Western Economic Diversification site at: www.wd.gc.ca/apps/amiantent.nsf, or try CBC Venture's Millionaire Quiz at www.cbc.ca/venture/millionairequiz.

THINK ABOUT THE FOLLOWING...BE HONEST WITH YOURSELF...

What Motivates You to Become Self-Employed?

- Are you following your heart / passion?
- Are you harvesting a gift / talent?
- Are you on a mission / following your gut?
- Are you capitalizing on your assets and following your own nature?
- Do you want to set your own work hours?
- Are you frustrated working for others?
- Do you have a need for recognition or attention?
- Do you need to be in control?
- Do you worry about your financial future?
- Do you get bored quickly and look for challenges?
- Do you function better in a structured and routine schedule?
- Are you comfortable working long hours?

Are you Organized?

- Do you make to do lists?
- Are you often late?
- Do you always do what you say you'll do?
- Do you delegate tasks that can be done more effectively by someone else?

Are you a Good Communicator?

- Are you someone who just can't say no?
- Are you a good listener?
- Are you a member of a local association?
- Do you look forward to networking opportunities?

- Do you prefer to send someone an e-mail or meet in person?
- Do you always remember people's names?
- Does your body language speak louder than your words?

Assertive and Opportunistic?

- Do you see problems as potential opportunities?
- Are you always looking for new and better ways to do things?
- Are you an extrovert or an introvert?
- Do you make decisions quickly, or analyze everything first?
- Are you listening when people are making suggestions?

Financial Stability?

- Have you saved any money?
- How's your personal credit?
- How much money do you need to cover your personal monthly expenses?
- Have you talked to a banker or accountant about your business idea?

Personal & Business Goals:

- What are 10 values that you wouldn't change for anything (family, freedom, education, integrity, etc.)?
- Where do you see yourself in 5 years?
- Where do you see your business in 5 years?

Personal Skills Required for Success:

- Deal with all types of people.
- Keep motivated while working alone.
- Adaptable to different situations.
- Remain positive.
- Good communication (verbally & written).
- Always marketing your business.
- Strong family support.
- See adversity as a challenge.
- Don't blame others for failures.
- Always striving to improve.
- Organized and stick to deadlines.
- A good planner.
- Good understanding of basic accounting.
- Ethical and have integrity.
- Take pride in personal appearance.
- Take time to analyze and evaluate.
- Good understanding of business.
- Financial stability.
- Prepared to listen to professionals.
- Have a good network and mentors.

IS THIS BUSINESS RIGHT FOR YOU?

- Have you ever worked in a business similar to the one you want to start?
- Have you ever worked as a Supervisor or Manager?
- Have you ever had business training?
- Do you know a lot about the industry that your business is in?
- What does the future economy look like in your area and how will that affect your business?
- Do you feel there is a need for this business, and do your potential customers agree?
- Will owning this business conflict with any of your values?

WHY DO I NEED A BUSINESS PLAN?

In our experience, most business owners who didn't take time to plan find themselves quickly having to deal with all too familiar business pitfalls...that often lead to lack of cash, overwork, and crises!

IF YOU FAIL TO PLAN ...YOU PLAN TO FAIL!

Planning isn't easy, but being successful in business is even harder. A Business Plan gives business owners what they want – a means of preparing for the future and focusing their time and energy on efforts that will help make them a success. Business plans allow you to raise money, operate more efficiently, make fewer mistakes, and be better prepared for sudden growth or adversity.

WHO WRITES MY PLAN?

You do! No one should know your business better than you. Get help if you need it and do good research, too. Get someone to read it over for spelling mistakes, etc.



ON THE WEB

STATISTICS FOR RESEARCH

www.statscan.ca
www.bcstats.gov.bc.ca
www.strategis.gc.ca
www.businessgateway.ca
www.exportsource.ca

SAMPLE BUSINESS PLANS:

www.smallbusinessbc.ca
www.rbcroyalbank.com
www.bplans.com

THE READER IS LOOKING FOR 3 THINGS

1. To clearly understand the opportunities for the business (the market information).
2. What are your goals - what do you want to do and how are you going to do it (your strategies and how you're going to implement them).
3. What's the deal - what's required to make this happen, and what's their reward for helping you?

SMART TIPS

- Write it in the third person, "The business will ..."
- Use the name of the business a lot, so it sounds like an existing entity.
- Number your pages.
- Too much information is better!
- Attach copies of your resume, lease agreement, customer surveys, contracts, certifications, letters of support, etc.

THE PLAN

NOTE: Following is a generic business plan. Some of the points may not pertain to your business.

The Beginning – What It Should Start With

1. COVER PAGE

The title page should include the name of the business, address and contact information, the name of the person who wrote the plan, and the date the business plan was written.

2. TABLE OF CONTENTS

This helps to keep the plan organized and easy to follow for the reader. Number your pages!

3. EXECUTIVE SUMMARY

This section summarizes the entire plan. You should write it **AFTER** you've written your business plan. It should be compelling, because most people will only read this section! If the Executive Summary is done well, it will lead the reader into the rest of the document.

The Executive Summary should include brief descriptions of: Who, What, Where, When, How, How much?

- Outline your product or service
- What is creating customer demand
- What opportunities this creates for the business
- Short and long term goals and strategies
- What's in it for the investors (timing and description of reward)
- Amount of money required (including how much you will invest yourself)

4. MISSION STATEMENT

This describes why the business exists, what it does and why. Ideally, the business always operates within its mission.

Here are some questions to help:

- What is the company's purpose?
- How does the owner's vision help create this purpose?
- What are you trying to accomplish?
- What business are you in and why?
- Who benefits from your company's success (customers, investors, community)?

5. CORPORATE STRUCTURE

- What is the legal structure of the company (sole proprietor, partnership, incorporated)?
- What is the name of the business, and has it been searched at the Government Agent's office to verify this name is available?
- Who are the owners / shareholders?

Intellectual Property

Do you, or the company, own Copyrights, Trademarks or Patents?

6. HISTORY

If this business has history...describe the history of the company. How did it get started? How long in business? Highlight events that are important in understanding the firm today.

Here are some questions to help:

- Who started the business and when was it started?
- How has ownership / business changed and why?
- What are the historical sales and profits?
- What is the history with creditors?

7. THE TEAM

A business is only as strong as its people. Your Management may be the difference between a successful business and one that fails.

a) Owner / Management Background

- Describe the owner's knowledge, skills, and background, and how it will relate to this business (be sure to include any volunteer service or other experiences).
- Describe what strengths the owner(s) have regarding day-to-day operations.
- What are your future goals and plans?

b) Advisors

- Who are the business advisors (Accountant, Lawyer, Banker, Insurance Agent)?
- Do you have access to a board of advisors or mentors? What is their employment / education? How will they help to positively impact your success?

c) Staff & Additional Hires

- Name and describe, separately, your management and staff. Include the qualifications of each member, and what their role will be. Will they work on a contract basis, salary or wages? What incentives will you offer? What employee benefits will you have to pay (WCB, CPP, etc)?
- Will you have additional human resource requirements? What training will they need? What will their duties and responsibilities be?

Marketing

8. MARKET RESEARCH

This section explains to the reader why there is a need or opportunity for the business – as proven by a detailed study of the market. You'll have to do a lot of research. Really spend time on this section. It's important!

a) Industry Analysis

- Describe the industry (retail, manufacturing, or service).
- Describe general trends in the industry and what might affect these trends (economy, tourism).
- Explain the industry standards and performance requirements.
- Is the industry new, growing, stable or changing?
- Clearly describe what your company is going to do and why that's special.

b) Target Market

- Describe your key customer (gender, age, where they live, how much money they earn, etc). This is the customer who is most likely to buy your product or service.
- What are your plans to grow sales?
- Don't guess at what your customers think, include **Primary** market research.
- Include **Secondary** market research with stats that relate to your business.

Primary Market Research

- *Market surveys (talking directly with potential customers and obtaining their written feedback).*
- *Obtaining written letters of support from potential customers.*
- *Obtaining signed contracts.*

Secondary Market Research

- *Statistical information from the Federal or Provincial Governments that provides information regarding customer spending habits, population growth in an area, etc.*
- *Be sure to credit your information (name your reference).*
- *Be specific, don't use National statistics for a Regionally based business.*

c) Competition

- Name your **direct** competitors and describe where they are located, their strengths / weaknesses and compare that to your business.
- What are your competitor's prices? What will you offer that your competitors don't?
- Are customers satisfied with the current service that they are getting from competitors?
- How will you fit in to the market?
- Don't forget to include information about your **indirect** competitors – other businesses that sell a product or service that isn't the same as yours, but similar.

9. THE MARKETING PLAN

What is your strategy to get customers? How will you advertise? How will you close the deal?

a) Product or Service

- What makes your product or service unique? Describe the features (consider packaging, color, weight, other things your customers will enjoy).
- Does your business focus on quality, price, or service to customers (pick any 2 and explain).
- What other benefits will your customers get if they use your product / service (will they save money, feel better, be smarter, etc)?
- How will you get your product / service into the hands of your customers (type of distribution)?

b) Pricing Strategy & Customer Service

- What is your base price and how did you arrive at this figure?
- Is your pricing competitive? If your price is higher, is your quality better? If your price is lower, how are you able to charge less?
- What do your costs include (freight, direct labour, raw materials, inventory)?
- Will you have a customer service policy in effect, and how will you train your employees to follow this policy?
- Will you be offering discounts, coupons?
- What are your policies on exchanges, lay-a-ways, trade-ins, etc?
- How will you accept payment? Will you offer credit terms?
- What after-sales support will you offer? Will you charge for this?

c) Advertising & Promotion

- Describe how you are going to communicate to your customers?
- Think about any strategic alliances with other businesses that might be to your benefit, too.
- Becoming a member of the local Chamber can be a cheap and effective way to advertise.
- Expand your network and attend business after business meetings – always marketing your business! Word of mouth is another cheap and effective way to advertise.

Here are some questions to help you:

- How will you advertise (direct mail, radio, television, etc)? What will this cost, and is it appropriate for your business?
- What kind of marketing material will you use (brochures, business cards), and what will this cost you?
- Will you have a website? How will you use this to market your business?
- Are there other ways you can market your product (trade shows, advertising in magazines)?
- Will you have a grand opening?
- Will you send out a press release?

The Operational Plan

10. OPERATIONS

Address the day-to-day operations of your business. This section will help you develop a checklist of tasks that need to be done. Be sure to describe in detail (as though the reader knows nothing about your business) and show that you have an understanding of the process of manufacturing or delivering your service or products.

a) Process:

- Who will supply you with your raw materials and what are those costs? Do you have contracts in place and what are the terms? What are your freight costs? Do you have alternative suppliers, as Plan B?
- Will you keep inventory on hand and if so, will you require storage?
- Are there any hazards on your work site? Have you planned any health and safety guidelines (policies and procedures)?
- What are the equipment requirements and why are these vital? How will you finance the equipment purchases (loan, lease)?

- What are your direct labour costs?
 - Will you be subcontracting any portion of the production? If so, what are the contract arrangements?
- b) Product or Service & Distribution:**
- Is your product / service already proven in the market, or do you need to conduct feasibility testing (prototype)?
 - How long will it take to produce one unit, and what affects your production time (shortage of materials, rush orders, etc)?
 - How will you keep track of inventory?
 - What systems and quality controls do you have in place?
 - How will you accept payment from customers? Will you offer terms? Do you have a return policy? What are these costs?
 - Give an example of your products / services and list the customer's price.
- c) Location, Signage & Layout:**
- Home-based or leased space? Why is this location beneficial? Who is the landlord, and what are the terms of rent? What are the zoning regulations?
 - What leasehold improvements will be required? What are those costs?
 - Are you located close to customers / suppliers?
 - Is there sufficient parking? Who are your neighbors?
 - How will the space be decorated / finished and does this suit your business identity?
- d) Implementation Plan and Checklist:**
- When will you be implementing these plans (give approx. dates)?

The Financial Plan

11. FINANCE

This section will prove how viable your business will be. You should keep these documents, and compare them to what the business actually achieves in the future. You will have to make certain assumptions before you complete the projections. Be careful not to be overly optimistic. You may want to include "best" and "worst" case scenarios. *A good market study will make this section easier!*

a) Financing Requirements

State here exactly how much financing you will require, and break down exactly how those funds will be used. What assets will you bring to the business and what assets will be purchased? How much working capital will you need to borrow, and how much will you have yourself?

b) Expenses

First you need to know what your expenses will be. You'll have two types of expenses:

1. *One-Time Start-Up Expenses:*

- Rent deposit, purchases of equipment or inventory, purchase of other assets (like vehicle), leasehold improvements, phone and utility hook up fees, licenses, fees or incorporation costs, etc.
- Knowing these will also help you determine how much financing you will need.

2. *On-Going Monthly expenses:*

- Wages and salaries, monthly rent, office expenses (postage, paper), insurance, monthly utilities, cell phone, car expenses (fuel), maintenance and repairs, loan payments, advertising, legal and professional fees, etc.

This information should confirm 11 (a)...your financial requirements.

c) Balance Sheet

This is a “snapshot” of the financial state of your business at a particular day. It outlines:

Assets What the business owns.
Current Assets are accounts receivables, inventory you have on hand now, and the cash balance in the bank.
Fixed Assets are the value of the property, building, equipment, furniture, and vehicles.

Liabilities What the business owes.
Current Liabilities are accounts payables, debts that you owe within the year (like suppliers and credit card balances).
Long-Term Liabilities are loans, mortgages, and loans that the owner(s) have made to the business.

Equity The amount of equity that you will put into the business.

Use this formula: $Assets = Liabilities + Equity$

Create an **Opening Day Balance Sheet** for your business plan and a **Pro-forma Balance Sheet** (representing what you think the status of the business at the end of the first 12 months). Continue to keep a monthly balance sheet. There is a lot of financial information about your business here!

 See attached example and blank sheet for your use

d) Income Statement

An income statement shows your profit or loss for a particular period of time. You will need to detail:

Income All sales / revenues made to date.

Expenses All expenses paid to date.

Net *Profit (or Loss)*

Use this formula: $Income - Expenses = Net Profit (or loss)$

Create a **Pro-forma Income Statement** (representing what you think the financial performance of the business will be at the end of the first 12 months). Continue to keep a monthly income statement, so you can measure the business' actual performance.

 **See attached example and blank sheet for your use**

e) **Break-Even Analysis**

What is break-even? It's the exact amount of sales needed to cover all the expenses, but not lose money or make a profit. Why is it important to know this? Well...what if your expenses increase, you need to know how many more sales are required to cover that increase and stay even.

Say your expenses increase by \$1,000. How many sales do you think you'll need to cover this? If your answer is \$1,000 – you would be wrong!

We know you're not in business to break-even. But knowing the break-even is an excellent tool. Why? To help you manage and control expenses and make better decisions regarding pricing.

Ok. So how do we calculate break-even?

CALCULATING BREAK – EVEN

Step 1 First complete your income statement.

Step 2 Now look at your expenses. Determine which expenses are **fixed** and which are **variable**. What's the difference? Fixed expenses never change from month-to-month and are not affected by the sales (example: rent, insurance, interest). Variable expenses are affected by the sales. In other words, sales cause variable expenses (example: cost of goods, commissions).

Step 3 Use the attached sheet. Plug in the figures.

Step 4 Calculate your break-even per year, per month, per day. What happens if your sales increase by \$1 each day? Or what happens if your expenses can be decreased by \$1 each day? How is your profit affected? Now you see why this is an impressive tool for use in your business

 **See attached example and blank sheet for your use**

f) **Ratios**

Ratios are used by bankers as a way of measuring the financial performance of the business and “following the cash” – so they can spot any developing problems. You should know this information too! The following ratios are the most useful to all types of businesses:

RATIO	FORMULA:	WHAT THIS TELLS YOU:
From the Balance Sheet:		
Current	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This ratio is a rough indication of the business' ability to service its current financial obligations. A ratio of 1.76 means that for every \$1 in Current Liabilities, the business has \$1.76 worth of Current Assets in which to pay them.
Quick	$\frac{\text{Cash} + \text{Accounts Receivables}}{\text{Current Liabilities}}$	This ratio is also known as the "acid test" and tells us how many liquid assets the business has to cover current obligations. A ratio of 1.15 means that for every \$1 in Current Liabilities, the business has \$1.15 worth of Cash and Accounts Receivables in which to pay them.
Debt-to-Worth	$\frac{\text{Total Liabilities}}{\text{Equity}}$	This ratio expresses the amount of capital that has been contributed by the creditors to that contributed by the owners. The higher the ratio, the greater risk the business is to a creditor. A ratio of 1.05 means that for every \$1 invested by the owners, the business owes \$1.05 to its creditors.
From the Income Statement:		
Gross Margin	$\frac{\text{Gross Profit}}{\text{Sales}}$	This measures the profitability at the Gross profit level. A ratio of 34.4 means that for every \$1 in Sales, the business produces 34.4¢ worth of Gross Profit.



g) Cash Flow Forecast

The No. 1 reason why businesses fail is LACK OF CASH. The cash flow statement is a reflection of how much money your business has at a given date. Although the cash flow is very similar to the Income Statement, there is an important difference...the cash flow shows the TIME when revenue is collected and expenses are paid.

Create a **Cash Flow Projection** sheet for the next 12 months. Be sure to write down the assumptions you've used when preparing this sheet; so someone who sees it can better understand how you came up with the figures.

- If you have a net loss at the end of each month, this is a good indication of how much money you may need to borrow as working capital to operate day-to-day.
- You will also have a better idea of when you will need to draw loan funds (or inject more of your own cash) to make purchases.

SMART TIPS

- ❑ If the business is selling various products, separate the income on the cash flow (for example if you are operating a restaurant, you would want to see how many sales are from food and how many sales are from beverages).
- ❑ Record all the one-time expenses in the start-up month and the on-going monthly expenses in the remaining months.
- ❑ Record ALL the expenses the business will have to pay each month to operate, including full loan payments (not just the interest).
- ❑ Remember, cash and profits are two different things!
- ❑ Be sure the cash flow projection demonstrates that there is cash in the business at the end of each month. If not, this is how you'll know how much working capital you'll need to borrow to operate efficiently.

 See attached example and blank sheet for your use

Assessing the Risks

12. RISKS

Here are some questions to help you:

- ❑ What will you do if the demand for your product / service decreases?
 - ❑ How will you repay investors / creditors if your business fails?
 - ❑ What if more competitors open up?
 - ❑ What are possible risks in your industry?
 - ❑ What are possible changes in the local economy?
 - ❑ What if you find out that the business you bought had debts you weren't aware of?
 - ❑ What if you get sick?
 - ❑ What if your inventory is burned in a fire?
 - ❑ What if one of your key employees quits?
 - ❑ What if you run out of cash?
 - ❑ What if your major supplier shuts down?
 - ❑ Are there any environmental issues to consider?
- It's important for you to think through every possible risk that your business could face, and explain how you plan to minimize those risks. What's your **Plan B**?

13. CONCLUSIONS

Your business plan should read as strongly as you feel about your dream! In this section, make it very clear why you are writing this plan.

- Restate your **goals** and **objectives**.
 - Think short and long term goals
 - What if the business is successful?
 - What is your exit strategy?

- If you are trying to obtain financing, state the amount required and what it will be used for.
- Summarize the plan.

Be clear and leave a positive impression!

14. SUPPORTING DOCUMENTS

Be sure to include any information that you feel will support the business plan, such as:

1. Past 3 years of financial statements - For existing business
2. Résumé - For all owners, management
3. Statement of personal monthly expenses - separate from the business
4. Statement of personal assets being invested in the business - With current market values
5. Credit reports - For all owners and the business
6. Copy of Legal documents - Lease, mortgage, purchase agreements, partnership agreements, patents, trademarks
7. Letters of reference - Recommending you as a reputable and reliable business person
8. Contracts - Include all business contracts, either completed or in-force
9. Letters of Intent - Written letters from potential customers who intend on using the business
10. Surveys - Provide a sampling of your customer surveys
11. Certifications - Copies of all certificates, diplomas, etc.
12. Statistics - The sources from which you referenced your statistics referred to in the plan
13. Insurance - Verification of insurance in place
14. Miscellaneous - Copies of your advertisement, layout, logo, etc.

**Your plan should look professional.
Don't give out too many copies at once
and keep track of who has a copy.**

Well...what's the verdict? You've written your plan. How does it look?

Your business plan will contain many assumptions, estimates and your best guesses! But in the end, YOU will either make or break the plan. The most common mistake is to over-estimate the business' ability to deliver. Don't set yourself up for disappointment. Instead, try to be conservative in your revenue estimates, while going high on the expenses. If you can make it there, you can make it anywhere! Set challenging, but realistic goals. Then, hopefully, everything will go right and you will out-perform your projections.

GLOSSARY OF TERMS:

Asset: These include everything of value that is owned, including tangible (physical) items (cash, accounts receivable, inventory, land, buildings, equipment, etc.) and intangible (non-physical) items (trademarks, licenses, and goodwill - see goodwill definition below). The value of all your assets are recorded on your Balance Sheet.

Break-even Point: The level of sales where revenue equals total costs. A break-even point may also be expressed in terms of units of product.

Cash Flow Statement: A financial statement that shows when cash flows into and out of a business.

Cost of Goods Sold (COGS): COGS is calculated by adding all the expenses a business incurs as a result of producing its product or service. In a manufacturing business, cost of goods sold includes labour; in a retail or service business, labour is not part of COGS, but is an operating expense.

Current Assets: Cash, accounts receivable, inventory, all term deposits and prepaid expenses or any other asset which will be converted to cash within one year.

Current Liabilities: These include all operating loans, accounts payable and accrued charges including outstanding cheques, wages, long-term debt payments and taxes that are due within a year.

Depreciation: A charge against a fixed asset that writes off the cost of that asset over its useful life. The depreciation amount is entered as an expense in your income statement and is a non-cash expense.

Fixed Assets: A fixed asset generally includes the land, building and equipment / machinery that are likely to have a useful life to the company for more than one year.

Goodwill: An amount that represents the excess paid for a company, its shares, or other assets over its net asset value. Goodwill can only be assigned a value when Goodwill results in profits.

Gross Profit (or Gross Margin): This is the profit your company makes before considering operating and administrative expenses. It is calculated by subtracting the Cost of Goods Sold from Sales. It can also be expressed as a percentage by dividing a company's gross profits by its sales.

Income Statement: Part of the financial statements, the Income Statement looks at all revenue that a company receives from selling products or services, and then subtracts the total cost of operating the company. The income statement shows how much money a company has lost or made during a certain period of time (net profit).

Incorporation: This is a process that legally makes a business a separate entity from the owners. The business operates as a corporation. You can incorporate your company at any time. The cost is approximately \$3,000 if you use a lawyer, or \$1,000 if you complete and register the documents yourself.

Intangible Asset (or Soft Asset): This refers to the non-physical assets your company has, like incorporation costs, patents, trademarks or goodwill.

Leasehold Improvement: This is an improvement made on leased premises, for example, redecorating.

Lien: A charge placed over an asset (by the seller or by a creditor). The Lien Holder may take possession of the asset at any time, until it is fully paid for.

Limited Partnership: A legal partnership where certain owners assume responsibility only up to the amount of their investment. Investors who put up money for a business venture, without being directly involved in the operations, are not held responsible for the debts of the other partners.

Long-Term Liabilities: These are liabilities (like loans or debts) that are not payable within one year.

Net Worth: Indicates the owner's equity in a business, calculated by deducting total liabilities from total assets. Similarly, the net worth of an individual is calculated by deducting all personal liabilities from personal assets.

Glossary of Terms continued...

Operating Loan (or Revolving Loan): Short-term financing to supply cash flow support or cover day-to-day operating expenses – including, but not limited to, accounts receivable and inventory.

Partnership: A form of business ownership made up of two or more people. Partners share an agreed upon percentage in the responsibility, profits and / or losses of their business.

Patent: The legal right to ownership of an invention issued in Canada under the Patent Act. For a limited period, the inventor can charge a royalty for the use and application of the invention or sell such rights to another person.

Personal Guarantee: A guarantee to the lender that you will take personal responsibility for repaying the loan or any other debt obligation. Typically, even if the business is incorporated, creditors will ask for a Personal Guarantee from the company's owner(s) or shareholder(s).

Pro Forma: A projection or estimate of what may result in the future from actions in the present. A Pro forma financial statement is one that shows how the actual operations of the business will turn out if assumptions are realized.

Receivables: Represent invoices that you have billed but have not been paid. Also known as accounts receivables, they can be listed as current assets.

Security (often called Collateral Security): Asset(s) belonging to the business or to you personally, which are pledged to a lender in support of a loan.

Shotgun Clause: An agreement between Partners that gives either party the right to offer to buy all of the other's shares in the event of a disagreement. This is part of a written Partnership Agreement.

Sole Proprietorship: A form of business organization in which one person is the sole owner. In effect, there is no distinction between the owner's and the business' responsibility regarding the commitments made on behalf of the business.

Tangible Net Worth: Indicates the owner's equity in a business, calculated by deducting total liabilities from total assets, less (but not limited to) goodwill, incorporation / prepaid expenses, leasehold improvements and deferred costs.

Term Loan: A loan you obtain for a specified length of time (the term is usually not greater than the useful life of the asset being financed) to purchase fixed assets like machinery, equipment and buildings, or to renovate premises.

Trademark: A name, symbol or other mark, that identifies a product to customers and is legally owned by its manufacturer or inventory.

Triple Net Lease: This is a lease situation where the base rent is a certain price each month, but the tenant is also responsible for paying his or her proportionate share of extra charges that the landlord incurs (like property taxes and utilities). These charges should all be laid out in the lease (or rental) agreement.

Variable Costs: Costs that change depending on the level of sales or production. These could include commissions for salespeople, sales discounts, etc.

Venture Capital: An individual or institution that provides "high risk" debt or equity capital to small businesses, which are unable to obtain financing through traditional methods.

Working Capital: The money that you actually have to work with once you have considered your liabilities. Your net Working Capital is your company's current assets, less its current liabilities (the higher the amount, the better for your business!).

EXAMPLE OF INCOME STATEMENT AND BALANCE SHEET:

JASON'S GARDEN SERVICE		
STATEMENT OF INCOME AND EXPENSE		
JANUARY 1, 20xx to JUNE 30, 20xx		
(Unaudited)		
Revenue:		
By Product Sales & Delivery	\$32,705	
Cost of Sales:		
Opening Inventory	0	
Material Purchases	19,150	
Wages, Driver	7,200	
	26,650	
Less Closing Inventory	(6,245)	20,405
Gross Profit (37.6%)		12,300
Overhead Expenditure:		
Accounting Fees	500	
Advertising	2200	
Bank Charges	120	
Discounts	790	
Fees, Licenses	100	
Insurance, Shop	480	
Loan Interest	2390	
Office Stationary	1270	
Office Wages	2800	
Rent	2100	
Telephone	1280	
Truck Fuel	2960	
Truck Maintenance & Repair	1820	
Truck Insurance	3000	
Worker's Compensation	450	22,260
Profit / Loss for Period:	(Loss)	(9,960)

JASON'S GARDEN SERVICE		
BALANCE SHEET		
JANUARY 1, 20xx to JUNE 30, 20xx		
(Unaudited)		
Assets:		
Current Assets:		
Cash at Bank	11,019	
Accounts Receivable	3,551	
Inventories	6,245	
Prepayments & Deposits	1,080	
		21,895
Fixed Assets:		
Automotive - Trucks	65,000	
Office Equipment	550	
Office Furniture	850	66,400
		66,400
Total Assets:		\$88,295
Liabilities		
Current Liabilities:		
Accounts Payable	10520	
PST Payable	315	
GST / HST Payable	(5289)	
Current Portion Bank Loan	12000	17,546
Long Term Liabilities:		
Bank Loan	32000	
Loan R. Davies	28000	60,000
		77,546
Equity		
Contributed Capital for Period	22000	
Proprietor Draws for Period	1291	
	20709	
Loss for Period:	(9960)	10,749
Total Liabilities & Equity:		\$88,295

BLANK BALANCE SHEET FOR YOUR USE:

Company Name

BALANCE SHEET

As at _____ (date)

ASSETS:

Current Assets:

Cash	_____	
Accounts Receivable	_____	
Inventory	_____	
Prepaid Expenses	_____	
Other Current Assets	_____	
<i>Total Current Assets</i>		_____ (A)

Fixed Assets:

Land and Building	_____	
Furniture & Fixtures	_____	
Equipment & Tools	_____	
Vehicle(s)	_____	
Leasehold Improvements	_____	
<i>Total Fixed Assets:</i>		_____ (B)

TOTAL ASSETS (A + B = C)

_____ (C)

LIABILITIES:

Current Liabilities (debts due within 12 months)

Accounts Payable	_____	
Bank or Other Loan(s)	_____	
Taxes Owed	_____	
<i>Total Current Liabilities</i>		_____ (D)

Long Term Liabilities (debts due after 1 year)

Mortgage Payable	_____	
Bank or Other Loan(s)	_____	
Loans from Partner(s)	_____	
<i>Total Long Term Liabilities</i>		_____ (E)

TOTAL LIABILITIES (D + E = F)

_____ (F)

EQUITY:

Owners Equity (C – F = G)		
<i>Total Net Worth:</i>		_____ (G)

TOTAL LIABILITIES AND NET WORTH (F + G = H)

_____ (H)

SOME HELP:

- Your balance sheet can be PRO FORMA (a future projection) or ACTUAL (using past figures).
- The balance sheet indicates what the business owns and what the business owes for the period indicated.
- Use this basic accounting principal: Assets = Liabilities + Equity
- Therefore "C" and "H" should be the same amount.
- To calculate Equity "G", use this formula: Assets – Liabilities = Equity. Equity can be a negative number.

Remember – the Balance Sheet is a “snap-shot” of the business’ financial status.

BLANK INCOME STATEMENT FOR YOUR USE:

Company Name
INCOME STATEMENT
As at _____(date)

GROSS SALES:

Sales _____
Less Cash Discounts _____
Total Net Sales: _____ (A)

LESS COSTS OF GOOD SOLD:

Beginning Inventory _____
Plus Purchases _____
Less Ending Inventory _____
Total Cost of Goods Sold: _____ (B)

TOTAL ASSETS (A - B = C)

_____ (C)

TOTAL OPERATING EXPENSES:

Accounting and Legal Fees _____
Advertising and Promotions _____
Bad Debts Allowance _____
Depreciation (or Amortization) _____
Employee's Wages and Benefits _____
Freight / Delivery _____
Insurance _____
Interest (short term loans only) /
 Bank Charges _____
Loan Payments _____
Maintenance and Repairs _____
Meals and Entertainment _____
Office Expenses _____
Supplies and postage _____
Rent _____
Taxes / Licenses _____
Telephone and Utilities _____
Vehicle and Travel Expenses _____
Misc. Expenses _____
Total Operating Expenses: _____ (D)

NET PROFIT (or Loss) (C - D = E)

_____ (E)

SOME HELP:

- An income statement reflects overall operating results in a given period of time.
- It provides an overview of the results flowing from assets and liabilities of the business and summarizes sources of income and expenses.
- The categories listed as expense items are suggestions only; your business may have different expenses.

EXAMPLE OF CASH FLOW FORECAST

An estimate of how much cash will be coming in and going out of the business over a one year period.

Month	STARTUP	1	2	3	4	5	6	7	8	9	10	11	12	Totals
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ABC BOOK STORE	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
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CASH RECEIPTS (Cash In)

Sales		12,180	13,270	14,550	15,550	18,810	18,810	14,550	15,550	14,550	15,550	22,270	24,000	199,640
Investment from Owner	15,000													15,000
Term Loan Proceeds	50,000													50,000
Line of Credit	5,000													5,000
Total Cash In (A)	65,000	12,180	13,270	14,550	15,550	18,810	18,810	14,550	15,550	14,550	15,550	22,270	24,000	264,640

CASH DISBURSEMENTS (Cash Out)

Inventory Purchase (12%)	40,000	1,462	1,592	1,746	1,866	2,257	2,257	1,746	1,866	1,746	1,866	2,672	2,880	63,956
Leasehold Improvements	10,000													10,000
Equipment Purchases	10,000													10,000
														0
Advertising & Promotion	2000	200	200	200	200	200	200	200	200	200	200	200	200	4,400
Credit Card Machine (3%)	500	365	398	437	467	564	564	437	467	437	467	668	720	6,491
Delivery Charges	450	250	270	300	320	380	380	300	320	300	320	450	480	4,520
Employee Wages (including benefits)		2,000	2,000	2,000	2,500	2,500	2,500	2,000	2,000	2,000	2,000	3,000	3,000	27,500
														0
Fuel (vehicle)		50	50	50	50	50	50	50	50	50	50	50	50	600
Insurance (car, life, contents)	150	150	150	150	150	150	150	150	150	150	150	150	150	1,950
Legal & Accounting Fees	300	100	100	100	100	100	100	100	100	100	100	100	100	1,500
Licenses & Fees	300													300
Loan Payment		1,553	1,553	1,553	1,553	1,553	1,553	1,553	1,553	1,553	1,553	1,553	1,553	18,636
Maintenance & Repairs														0
Owner's Salary		2,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	33,000
Rent	1,000	500	500	500	500	500	500	500	500	500	500	500	500	7,000
Supplies (office & postage)		25	25	25	25	25	25	25	25	25	25	25	25	300
Telephone & Utilities	300	150	150	150	150	150	150	150	150	150	150	150	150	2,100
Miscellaneous														
Total Cash Out (B)	65,000	8,805	8,988	9,211	10,881	11,429	11,429	10,211	10,381	10,211	10,381	12,518	12,808	192,253

Cash Surplus/(Deficit) (A -B)	0	3,375	4,282	5,339	4,669	7,381	7,381	4,339	5,169	4,339	5,169	9,752	11,192	72,387
Opening Cash Balance (C)	0	0	3,375	7,657	12,996	17,665	25,046	32,427	36,766	41,935	46,274	51,443	61,195	Before
Closing Cash Balance (D)	0	3,375	7,657	12,996	17,665	25,046	32,427	36,766	41,935	46,274	51,443	61,195	72,387	Tax

Note: Line "C" is a carry forward from Line "D" in the previous month

BREAK-EVEN ANALYSIS:

DOLLAR Basis

Step 1 – Classify Your Costs

Using your most recent income statements, classify all costs as either **fixed** or **variable**, then total each category.

$$\begin{aligned} \text{Actual Total Sales} &= \$ \underline{\hspace{2cm}} \\ \text{Total Variable Costs} &= \$ \underline{\hspace{2cm}} \\ \text{Total Fixed Costs} &= \$ \underline{\hspace{2cm}} \end{aligned}$$

Step 2 – Calculate Variable Cost Percent

“For every \$1.00 of sales, what percent goes away to variable costs?”

$$\text{Variable Cost Percentage} = \frac{\text{Total Variable Costs}}{\text{Actual Total Sales}} = \$ \underline{\hspace{2cm}} = \underline{\hspace{2cm}} \%$$

Step 3 – Calculate Contribution Margin

“For every \$1.00 of sales (after paying for variable costs), what percent is left to cover fixed costs, plus any targeted profit?”

$$100\% - \text{Variable Cost Percentage} = 100\% - \underline{\hspace{2cm}} \% = \underline{\hspace{2cm}} \%$$

Step 4 – Calculate Break-Even Sales

“How many ‘cent-es’ does it take to cover your fixed costs?”

$$\text{Break-Even Sales} = \frac{\text{Total Fixed Costs}}{\text{Contribution Margin}} = \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

NOTE: To calculate the sales needed to generate a target profit, just add that target profit amount to your total fixed costs, then divide that amount by your contribution margin.

Step 5 – Check Your Calculations

“Does the sale level you figured actually ‘break-even’, or give you the profits you target?”

$$\begin{aligned} &\text{Break-Even Sales} && \underline{\hspace{2cm}} \\ \text{Minus} &\text{Variable Costs}^* &- & \underline{\hspace{2cm}} \\ \text{Equals} &\text{Contribution Dollars} &= & \underline{\hspace{2cm}} \\ \text{Minus} &\text{Fixed Costs} &- & \underline{\hspace{2cm}} \\ \text{Equals} &\text{Net Profit} &= & \underline{\hspace{2cm}} \text{ **ZERO** } \end{aligned}$$

* Compute this figure by multiplying Break-Even (above) by the Variable Cost Percent in Step 2.

BREAK-EVEN ANALYSIS:

UNIT Basis

Step 1 – Classify Your Costs

Using your most recent income statements, classify all costs as either **fixed** or **variable**, then total each category. Record the actual number of units sold and actual sales volume.

$$\begin{aligned} \text{Actual Total Sales} &= \$ \underline{\hspace{2cm}} \\ \text{Total Variable Costs} &= \$ \underline{\hspace{2cm}} \\ \text{Total Fixed Costs} &= \$ \underline{\hspace{2cm}} \\ \text{Total Units Sold} &= \end{aligned}$$

Step 2 – Calculate Your Price Per Unit

$$\text{Price per Unit} = \frac{\text{Total Sales}}{\text{Number of Units Sold}} = \$ \underline{\hspace{2cm}} \text{ Per unit}$$

Step 3 – Calculate Your Variable Cost Per Unit

$$\text{Variable Cost Per Unit} = \frac{\text{Total Variable Costs}}{\text{Total Units Sold}} = \$ \underline{\hspace{2cm}} \text{ Per unit}$$

Step 4 – Calculate Your Contribution Dollars Per Unit

$$= \$ \underline{\hspace{2cm}} \text{ Per unit} - \$ \underline{\hspace{2cm}} \text{ Per unit} = \$ \underline{\hspace{2cm}} \text{ Per unit}$$

Step 5 – Calculate Your Break-Even Sales in Units

$$\begin{aligned} \text{Break-Even Sales} &= \frac{\text{Total Fixed Costs}}{\text{Contribution Dollars per Unit}} \\ &= \$ \underline{\hspace{2cm}} = \underline{\hspace{2cm}} \text{ Units needed in sales to "break-even"} \\ &\$ \quad \text{per unit} \end{aligned}$$

NOTE: To calculate the sales needed to generate a target profit, just add that target profit amount to your total fixed costs, then divide that amount by your contribution margin.

USEFULL RESOURCES:

<p>BC Government: www.gov.bc.ca Phone 1-800-663-7867</p>	<p>BC Government Directory for various Ministries www.dir.gov.bc.ca</p>
<p>Registering a business Onestop Services: www.onestopbc.ca</p> <ul style="list-style-type: none"> • Register a proprietorship or partnership • Register with Canada Customs and Revenue Agency for GST • Register as a vendor for PST • Register as an employer for WCB • Apply for business license <p>Phone 1-800-988-8299</p>	<p>Local Government Agent's Office Locations: www.governmentagents.gov.bc.ca</p> <p>Penticton office Phone 487-4200 Oliver office Phone 498-3818 Princeton office Phone 295-6957</p>
<p>Deciding on a Business Structure: www.smallbusinessbc.ca Phone 1-800-667-2272</p>	<p>Should I Incorporate my Business: www.sb.gov.bc.ca</p>
<p>Government Investment Capital Programs: www.cse.gov.bc.ca</p>	<p>Business Planning: www.smallbusinessbc.ca</p>
<p>Canada Customs and Revenue Canada: www.cra-arc.gc.ca Self employed persons Phone 1-800-959-5525</p>	<p>Labour Standards and Regulations: Worker's Compensation Board www.worksafebc.com</p>
<p>Federal Government:</p> <ul style="list-style-type: none"> • Starting a business • Financing a business • Grants and services <p>www.strategis.gc.ca Phone 1-800-328-6189</p>	<p>Finding Market Data & Business Research: www.smallbusinessbc.ca/websites/index.html</p>
<p>E Commerce: SourceCan www.sourcecan.com</p>	<p>Exporting: Export Source</p> <ul style="list-style-type: none"> • Getting started • Export financing • Knowing your market <p>www.exportsource.ca Phone 1-888-811-1119</p>
<p>Patents, Trademarks: Canadian Intellectual Property office http://strategis.ic.gc.ca/sc_mrksv/cipo/welcome/welcome.html</p>	<p>Industry Information: Industry Canada www.ic.gc.ca</p>

<p>Financing for Youth in Business: Canadian Youth Business Foundation www.cybf.ca Phone 1-800-464-2923</p>	<p>Financing for Women in Business: Women's Enterprise Society of BC www.wes.bc.ca Phone 1-800-643-7014</p>
<p>Provincial Regulations: Industry Canada www.businessgateway.ca Phone 1-866-287-4283</p>	<p>Financing for Aboriginal Entrepreneurs: Aboriginal Business Canada http://strategis.ic.gc.ca/epic/internet/inabc-eac.nsf/en/home</p>
<p>Lease or Buy Calculator: http://strategis.gc.ca/epic/internet/insof-sdf.nsf/en/h_so03331e.html</p>	<p>Business Development Bank of Canada:</p> <ul style="list-style-type: none"> • Financing • Training • Information <p>www.bdc.ca Phone 1-877-232-2269</p>
<p>Best Way to Start A Business: Profit Guide www.profitguide.com</p>	<p>Canadian Statistics: www.statcan.ca</p>
<p>Provincial Statistics: www.bcstats.gov.bc.ca</p>	<p>On-line Publication: Canadian Business www.canadianbusiness.com</p>