Securing Your Business Financing

Whether starting a business or expanding, adequate capital is essential. In fact, the right sources of funding could make the difference between success and failure for your company.

As you make your way through the funding process, keep in mind that your CPA, as your professional business adviser, can be an important ally in evaluating all the available funding options, and helping you choose the one that best meets your needs.

Key Sources of Business Funding

Banks/Credit Unions
Local financial institutions are a major source of small-business financing. If you need a short-term loan, a single-purpose loan for machinery or equipment, or a seasonal line of credit, your local bank may prove to be the best source.

Customer/Supplier Financing
Customers may often be willing to pay up front for part or all of the services or products you supply. They may also respond to discounts for early cash payments. Suppliers can assist you in arranging financing terms for inventory or equipment purchases via purchase discounts for early payment, or term loans for long-term financing.

Factoring or Accounts Receivable Financing
Turn uncollected invoices into immediate funding by assigning its accounts receivable to a factor, or agent. This usually involves high interest or a deep discount for which the factor assumes all risks involved with collecting payment.

Working Capital Financing
This type of funding works like a line of credit that's tied to your company's receivables and/or the dollar value of your inventory.

Economic Development Programs
Many federal, state and local governments offer small businesses loan and incentive programs. Often, special consideration is given to ethnic groups, women, veterans and companies located in designated urban and rural locations. Funding through these special programs may require a great deal of documentation and tangible assets, primarily real estate or equipment, as collateral.

Private Investors
"Angels" or venture-capital investors typically take an equity stake in your company (usually preferred equity security) in exchange for funding. Some investors may insist on providing business direction as well.

It Pays to be Prepared

The critical element in receiving approval for funding is whether or not your company qualifies as a "good risk." Cash flow generally is more important than profitability. When you apply for funding, be prepared to have your business undergo intense scrutiny. The groundwork you do in advance should uncover any issues that you'll need to address during the funding process.

Dramatically increase your chances of securing funding with a well-prepared

Types of Financing

No matter what business you're in — and whether you need financing for a start-up, expansion or new development — there are two major types of business financing to consider.

Debt Financing — Your CPA/PFS professional can help you via services ranging from an informal consultation to a comprehensive financial plan.

Equity Financing — Involves raising capital by selling to investors an interest in your business. Instead of a guaranteed return, investors will have the opportunity to share in your company's profits. In many cases, they also will share in the management and control of your business.

business plan that supports your need for financing. You also should be able to answer the following questions:

- ***Why do I need funding? How will the capital help my business?***
- ***How much do I need to borrow? How urgent is the need, and is it short or long term?***
- ***Do I have a realistic plan to generate funds to repay the debt?***
- ***How strong is my management team?***

Assemble Your Business Information and Financial Data

Your business must be perceived as a good risk. In addition to a solid business plan, you should be prepared to provide pertinent business information and financial data including:

- Summary of the average amount of funds on deposit
- A list of investments, fixed assets and other assets, with detailed or supplementary schedules, giving market or appraisal value where appropriate
- A list of major vendors, customers and competitors
- The aging of receivables, with details regarding any concentration among a few customers
- The details of notes receivable and the risks of collection
- Inventories with details on price stability, aging and turnover
- A statement of your liabilities and reserves with appropriate explanations
- A comparison of your operating and balance-sheet ratios to industry averages
- A cash-flow analysis of your actual past experience and projections of future income, expenses and cash flow
- Relevant financial data including sales forecasts, profit-and-loss statements, cash-flow projections and balance sheets
- Miscellaneous documents that flesh out other important details of your operation, including copies of contracts, franchise agreements and tax returns

Do the Right Thing

- Always be totally honest about your financial situation.
- Don't try to hide or diminish past credit problems or current operating difficulties.
- Be prepared to discuss business problems and steps to prevent them in the future.
- Set reasonable projections with detailed plans for achieving goals. This will illustrate the level of thought you've given to making your business successful.
- Be forthcoming. Candor will go a long way in demonstrating your resolve to succeed and the profit potential of your business.

Help for Small Businesses

The AICPA has joined the U.S. Small Business Administration (SBA), an independent agency of the federal government dedicated to helping Americans start, build and grow their small businesses. Be sure to ask your CPA about the SBA, and visit sba.gov to access tools, resources and services, including information on SBA loan programs.

Fundamentals of an Effective Business Plan

A well-prepared business plan should include:

1. *Executive Summary*
2. *Description of Company*
3. *Description of Product or Service*
4. *Market Analysis*
5. *Ownership Structure*
6. *Management Team (including membership in any professional or trade organizations)*
7. *Financial Advisers (including CPA, attorney, etc.)*
8. *Description of Business Model*
9. *Summary of Business Operations*
10. *Financial Statements*

How a CPA Can Help

A CPA often has established relationships with financial sources and may know which ones would be most receptive to working with your company. In addition, a CPA can help you prepare a business plan and effectively present the information. Perhaps most importantly, because CPAs know how a company can be profitably managed and positioned for growth, they can help you evaluate your funding options, including multiple-source financing. Go to aicpa.org/findaCPA to find out more.

CPA

Securing Your Business Financing and **360 Degrees of Financial Literacy**

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