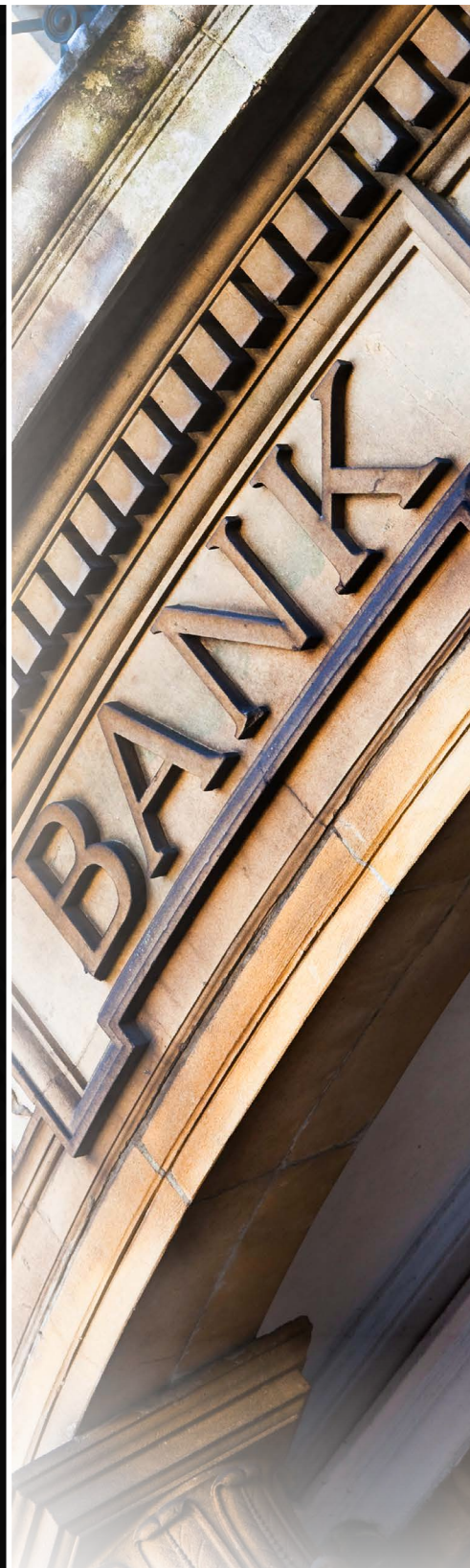


# GUIDE TO **ACQUIRING STARTUP FINANCING**



To make your business #CPAPOWERED,  
call today and let's get started.



It's no secret that you will need capital — money — to launch your new business. In fact, many entrepreneurs struggle to get their businesses off the ground because they're unable to secure adequate funding<sup>1</sup>. The good news is that billions of dollars are available to fund small business ventures like yours.

Before you begin the process of securing capital, you will need a written business plan that defines your business, management team, market, products and services, competitive advantage and the financial forecast and analysis that determines the proper amount and type of financing.

In this guide, certified public accountants (CPAs) offer their most helpful tips for planning your startup capital requirements and successfully acquiring funding for your new business.

<sup>1</sup> Kelley, D. J. (2014). *Global Entrepreneurship Monitor 2013 United States Report*. Global Entrepreneurship Research Association. 31.

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## FORECAST REVENUE, EXPENSES AND OPERATING CAPITAL REQUIREMENTS

List, on a monthly basis, projected sales revenue based on your market research and marketing plan. Be sure to include the assumptions on which your sales projection is based and build your forecast out at least 36 months from your launch date. For businesses that have longer development cycles, you may need to forecast up to 60 or even 72 months. Forecasts beyond 72 months, however, generally are impractical because of changing market conditions.

To determine monthly cash inflows, your revenue forecast should be broken down by cash sales (including credit card sales) and credit sales (sales made on trade terms) because days of accounts receivable outstanding will be a key input to determine operating capital needed.

Now compile a list of monthly expenses, including product costs, salaries, rent, utilities, insurance, software subscriptions, travel, interest on loans, credit card processing fees and any other significant expenses (except depreciation).

To forecast your cash outflows, add to your monthly expenses any non-financed fixed asset purchases, product purchases that remain in inventory and principal payments on loans.

The difference between your monthly cash inflows and your monthly cash outflows will determine how much operating capital you will need until you reach a positive cash flow position or break-even point. This process is known as *cash flow forecasting*.

Commercial lenders may check your financial projections against industry benchmarks published by the Risk Management Association (RMA). You should check your projected financial ratios yourself before you apply for a loan and be prepared to explain any significant variances.

The RMA Annual Statement Studies books are available at many public and college libraries. The RMA also now provides eStatement Studies ([rmahq.org](http://rmahq.org)) to nonmembers for a yearly fee. Data published by industry groups and research firms also may be helpful.

Your CPA can help you prepare projected financial statements and analyze the ratios both against your startup projections and on a monthly and quarterly basis when your business begins producing actual results.

**“Accurate cash flow forecasting is one of the most critical factors to the success of your business. Your local CPA, who has extensive experience advising small businesses, can provide you with an objective review of your forecast and help you make any needed adjustments.”**



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## EVALUATE TYPES OF WORKING CAPITAL FINANCING

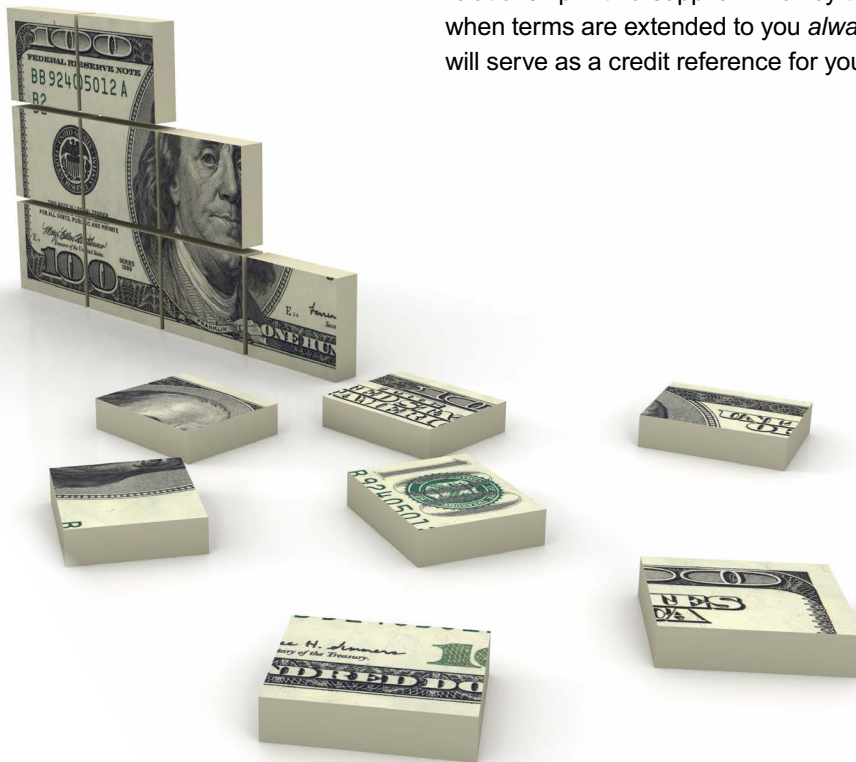
The types and terms of working capital loans vary significantly depending on their intended purpose and corresponding risk. The following are some of the more common ones.

### **LINE OF CREDIT**

Lines of credit are common sources of short-term working capital financing. Often, a business is approved for a line of credit up to a certain amount — much like a credit card — and the line can be used for fluctuations in accounts receivable, inventory and seasonal business cycles. Many banks won't extend a line of credit until your business has been operating for 12 months. Generally, you will pay interest on your outstanding balance on a monthly basis. The principal of your loan is "callable" by the bank subject to the notification requirement of the note. Lines of credit typically are secured by accounts receivable and inventory and can also be required to be personally guaranteed by the business owner and subject to restrictive covenants.

### **TRADE CREDIT**

As your business begins to grow, establishing trade credit with your primary suppliers will help you finance your growth — often at no cost to you. Trade terms usually are 30 days, but in some industries (retail for example), you can negotiate substantially longer terms once you've established a relationship with a supplier. The key to establishing trade credit is "ask," and when terms are extended to you *always pay on time*. Your first trade account will serve as a credit reference for your next and so on.



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## DETERMINE CAPITAL NEEDED FOR FIXED ASSETS

As you prepare the financial part of your business plan, you'll need to provide a detailed list of your capital needs separated into the following categories that correspond to common asset categories and specific types of business loans. Consider the following as you create your list of capital needs. Your CPA can help you as well.

- **Location** — Will you buy, build or lease? What kind of materials and labor might you need to build out the space?
- **Equipment** — List every major piece of equipment you will need and provide the cost for each and consider options for a capital lease versus making a purchase.
- **Technology** — Divide your list into hardware and software. Don't include software, data storage or website hosting that will be acquired on a subscription basis. Those services generally should be listed as *operating expenses*.
- **Furniture and fixtures** — List the quantity and prices from major distributors for desks, file cabinets, tables, chairs, shelving, displays, cubicles and so on.
- **Vehicles** — List cars and trucks essential to the operation of your business, such as delivery or service vehicles. Fleet vehicles may also be leased.

### LONG-TERM FINANCING

Most lenders will finance the cost of fixed assets in a term loan, for roughly five to eight years. Commercial mortgages have much longer amortization but often require a balloon payment or refinancing every five years. As an alternative to traditional financing, you should consider a capital lease. The details of available leasing programs are available from equipment manufacturers or distributors, independent leasing companies and leasing companies affiliated with commercial banks. Similar to working capital, long term loans also are secured and can be required to be personally guaranteed by the business owner and subject to restrictive covenants.





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## LIST YOUR PERSONAL ASSETS AND LIABILITIES

Although your personal assets may seem small compared to the amount of capital needed to start your business, potential lenders and investors want to see you demonstrate financially your commitment to the success of your business. Often this involves a personal loan guarantee or pledging as collateral the equity in your home, your retirement savings and any securities that you own.

Lenders and investors also will want to see a track record of financial responsibility demonstrated by your personal credit rating.

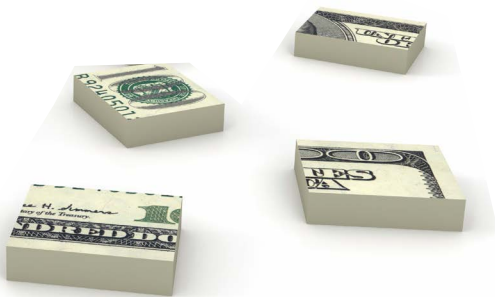
If your net worth is less than 10 percent of the capital you're seeking or you have a less than perfect credit history, you should do everything possible to get your personal finances in order *before* you seek business financing. You will need to explain any past financial problems to potential lenders and investors. Don't wait for them to uncover a surprise on your credit report or background check.

Your CPA can help you prepare a personal financial statement and adjustments to your projected financial statements for your business at various milestones such as 6, 12 and 18 months from your launch date.

## IDENTIFY POTENTIAL FUNDING SOURCES

When your business plan is complete and you're confident in your financial analysis, consider the following types of potential lenders and investors. You and your CPA can discuss these options in more detail to determine the possibilities as well as risks associated with each.

- Bank loans
- U.S. Small Business Administration Loans ([sba.gov](http://sba.gov))
- Leases
- Credit unions
- Venture capital
- Grants and community development loans
- Crowdfunding



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## PUT TOGETHER A FINANCING PACKAGE

In an ideal world, you would have one funding source. But reality for most businesses is that multiple funding sources are necessary. Consider the following example for financing a craft brewery.

You have \$50,000 in stock and personal savings. Fifty thousand dollars is a nice start, but it's not enough to launch a brewery. Your brewery will provide 10–15 full-time jobs averaging \$15 to \$25 per hour that will qualify you for a \$50,000 job creation grant from your regional economic development authority. You found an empty warehouse downtown perfectly suited to your brewery — but it needs renovation. You apply for a \$50,000 grant from the downtown development corporation to restore a historic building.

Through your professional networking, you've found a local business owner (an angel investor) who will contribute \$25,000 in exchange for an equity stake and active participation in decision making. Now with \$175,000 in hand, you can approach a bank for a \$200,000 capital equipment loan.

## YOUR LOCAL CPA CAN HELP

As you make your way through the financing process and begin evaluating your funding options, keep in mind that your local CPA can be your most trusted professional business adviser. Your local CPA already advises other small businesses in your area and has relationships with local banks, insurance agents, attorneys, investors, municipal and county regulatory officials and more. Your CPA can be an important ally in helping you determine how much capital you need, evaluate available funding options and choose the ones that best meet your needs.

### PUBLIC RESOURCES

Starting a business is hard work — but it's worth it. And because small business is such an important part of the U.S. economy, the U.S. Small Business Administration (SBA) provides a variety of services to small business owners at no cost. The SBA fulfills its mission by partnering with numerous public and private organizations. Here we'll take a look at two SBA partners that operate in your community.

### SCORE

SCORE provides a variety of startup financing resources on its website, [score.org](https://score.org), and has more than 320 local chapters across the country. Go here ([score.org/chapters-maps](https://score.org/chapters-maps)) to find a chapter close to you.

### SBDC

Your local Small Business Development Center (SBDC) typically partners with universities in your state, provides training and has professional staff available to help you conduct market research, write a business plan and find financing sources that may not be advertised. Go here ([americassbdc.org](https://americassbdc.org)) to locate your local SBDC office.





# BUSINESS LOAN **APPLICATION CHECKLIST**

While every loan program has specific forms you need to fill out and documents you need to submit, you will likely need to provide much of the same information for different loan packages.

## QUESTIONS YOUR LENDER WILL ASK YOU

- ☐ Why are you applying for this loan?
- ☐ How will the loan proceeds be used?
- ☐ What assets need to be purchased, and who are your suppliers?
- ☐ What other business debt do you have, and who are your creditors?
- ☐ Who are the members of your management team and what are their qualifications?
- ☐ Why do you think this business will be successful?

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## DOCUMENTS YOUR LENDER WILL REQUEST

- ☐ **Personal Background** — Either as part of the loan application or as a separate document, you will probably be asked to provide some personal background information, including previous addresses, names used, criminal record, educational background, etc.
- ☐ **Résumés** — Some lenders require evidence of management or business experience, particularly for loans that are intended to be used to start a new business.
- ☐ **Business Plan** — All loan programs require a sound business plan to be submitted with the loan application. The business plan should include a complete set of projected financial statements, including profit and loss, cash flow and a balance sheet.
- ☐ **Personal Credit Report** — Your lender will obtain your personal credit report as part of the application process. However, you should obtain a credit report from all three major consumer credit rating agencies before submitting a loan application to the lender. Inaccuracies and blemishes on your credit report can hinder your chances of getting a loan approved. It's critical that you try to clear these up before beginning the application process.
- ☐ **Business Credit Report** — If you are already in business, you should be prepared to submit a credit report for your business. As with the personal credit report, review your business' credit report before beginning the application process.
- ☐ **Income Tax Returns** — Most loan programs require applicants to submit personal and (if applicable) business income tax returns for the previous three years.

# BUSINESS LOAN **APPLICATION CHECKLIST**

While every loan program has specific forms you need to fill out and documents you need to submit, you will likely need to provide much of the same information for different loan packages.

## DOCUMENTS YOUR LENDER WILL REQUEST *(Continued)*

- ☐ **Financial Statements** — Many loan programs require owners with more than a 20 percent stake in your business to submit signed personal financial statements. You may also be required to provide projected financial statements either as part of, or separate from, your business plan. Have both types of financial statements prepared and ready in case a program for which you are applying requires them to be submitted individually.
- ☐ **Bank Statements** — Many loan programs require one year of personal and business bank statements to be submitted as part of a loan package.
- ☐ **Collateral** — Collateral requirements vary greatly. Some loan programs do not require collateral. Loans involving higher risk factors for default require substantial collateral. Strong business plans and financial statements can help you avoid putting up collateral. In any case, it is a good idea to prepare a collateral document that describes the cost or appraised value of personal or business property that will be used to secure a loan.
- ☐ **Personal Guarantee** — It's very common for a lender to ask you to sign a personal guarantee for your business loan. In addition to personal assets you've invested in your business, a personal guarantee provides additional "skin in the game." After your business has a few years of operating history, you may not need to personally guarantee new loans.
- ☐ **Legal Documents** — Depending on a loan's specific requirements, your lender may require you to submit one or more legal documents. Make sure you have the following items in order, if applicable:
  - ☐ Business licenses and registrations required for you to conduct business
  - ☐ Articles of Incorporation
  - ☐ Corporate banking resolution
  - ☐ Copies of contracts you have with any third parties
  - ☐ Franchise agreements
  - ☐ Commercial leases
  - ☐ Proposed building leases
  - ☐ Representation letters
  - ☐ Purchase orders

Source: Adapted from "Business Loan Checklist, U.S. Small Business Administration, [sba.gov](https://www.sba.gov).





