

SCORE[®]

Counselors to America's Small Business

EARLY PLANNING STAGE

Start-up License and Tax Requirements

The Business Plan

The Cash Flow Analysis

Evaluating Basic Accounting Programs

Types of Business Organization

START UP LICENSE & TAX REQUIREMENTS

FOR ALL START-UP BUSINESSES

Check with your Township for Business License requirements, zoning restrictions, and, if needed, Police or Fire Permits.

IF YOUR BUSINESS WILL HAVE EMPLOYEES:

- ◆ Obtain an Employer Identification Number from the IRS for withholding, unemployment, and other tax payments. Ask for their new business start-up kit, "Taxpayers Starting a Business" (Pub. 583), and "Tax Guide for Small Business" (Pub.334). Call IRS: 1-800-829-1040
- ◆ Obtain a Pennsylvania State Employer Identification Number and business information kit for same purposes as for IRS.
- ◆ Workers Compensation Insurance is required. Call insurance broker.
- ◆ Before Workers Comp insurance is issued, an Injury and Illness Plan is required. See SCORE Publication #SAS 52.

IF YOU WILL SELL TANGIBLE PRODUCTS or SERVICE:

A Sales Tax license is required when you sell sales-taxable items. It is also used for purchasing and selling items for resale.

IF YOUR BUSINESS WILL HAVE A FICTITIOUS NAME:

It must be registered with the State. A form is available in SCORE Chapter 570's office. The filing fee is \$52.

IF YOUR BUSINESS WILL BE HANDLING FOOD:

Building, equipment plans, premises must be approved. Home preparation not permitted. Contact: Bucks County Board of Health.

IF YOU PLAN TO USE INDEPENDENT CONTRACTORS, YOU CAN DO SO LEGALLY IF:

- ◆ Person does not have employee-employer relationship with you.
- ◆ Person not required to carry out contracted tasks on your premises. Information sheets are available from SCORE Chapter 570.

A PERSON IN YOUR EMPLOY WORKING AT HOME IS NOT AN INDEPENDENT CONTRACTOR RULES CAN BE COMPLEX. IF YOU'RE IN DOUBT FILE IRS FORM SS-8, AVAILABLE AT IRS OFFICES.

AN ANNOTATED MODEL FOR A BUSINESS PLAN

Introduction

One purpose of this annotated model for a business plan-of-action is to ensure that entrepreneurs have recognized a researched (with help if needed) relevant subject areas pertaining to their particular business concept. For success, it is vital that the pertinent questions be asked and answered by the entrepreneur.

It is important to note that the relevant subject areas to be explored (for a complete business plan-of-action) are very much the same whether the entrepreneur is initiating, buying, or enlarging a business. Moreover, the ingredients for success, and the questions designed to uncover these ingredients, are similar in most cases.

The model should serve as a guideline - particularly the Roman numeral topic areas. Obviously, information outlined or identified in sub-sections of the business plan-of-action table of contents may require expansion or change according to the needs of the entrepreneur. The outline may serve as a checklist.

Properly used, this model guideline can provide the entrepreneur with an effective "road map" to aim him toward success.

BUSINESS PLAN OF ACTION

I. The Concept

In this section, the entrepreneur provides a brief description of the business idea and the basic assumptions or premises for initiating/buying, enlarging the business.

II. Objectives of the Entrepreneur (A Target Plan)

The entrepreneur clearly identifies the goals or objectives in two or three brief statements - - followed by equally brief statements as to how each goal or objective will be accomplished. In addition, an estimated time plan should be formulated. (This forces the entrepreneur to think and plan.)

III. The Product/Service Mix (Product, Price, Promotion, Place)

In this section, the entrepreneur identifies:

- A. The products or services offered.
- B. The pricing Strategy (penetration, meeting competition, "cream skimming")
- C. Basic promotional strategy/activities.
- D. Physical facilities - - the place/location.

IV. Management and Personnel Audit

The entrepreneur identifies the following:

- A. The owner(s) of the business - - including a brief statement about their relevant experience.
- B. The form of the business (sole proprietorship, partnership, corporation).
- C. The number of full-time employees needed - and their jobs/activities
- D. The number of part-time employees needed - and their jobs/activities
- E. A brief evaluation of the manager/owner - for this type of business.
- F. Sources of additional employees or managerial people - if needed.
- G. Who has been retained as an attorney - preferably on an "as needed" basis?
- H. Who the business insurance broker will be - for business insurance needs of the business.
- I. Who will fill the role of accountant for the business?

V. Analysis of the Market Potential (Justifying the Business)

The entrepreneur must research, identify, and express his/her findings in the following:

- A. Demographics:
 - 1. The population in the proposed area (number, age)
 - 2. The income of the population.
- B. The firm's Target market:
 - 1. Investigate and evaluate realistically the needs and wants of the community.
 - 2. Determine who are or will be the firm's customers.
- C. The competition (or possible competition) in the proposed marketing area.
- D. Trends or analysis if the industry - the firm's product or services.
- E. The location and/or equipment needs of the business and why the owner selected it.
 - 1. Location - buy or lease and why - including costs.
 - 2. Equipment - buy or lease and why - including costs.
- F. A brief expression of the realistic potential of the business - based on findings.

VI. Strategy for Development of the Business (Growth)

The entrepreneur should be able to identify and briefly state his/her thoughts on the following:

- A. The basic operating policy of the firm. ("Policy" is nothing more than the attitude of owner/ manager - expressed in writing.)
- B. Expansion and growth plans (sites, facilities equipment needs, people needs, and an expression of the firm's track record thus far).
- C. Innovations that may be introduced to increase customer traffic (or contracts) and profit.
- D. Friends of the entrepreneur (or people in the community) who are real potential centers of influence.
- E. The owner's personal plans for the next five years.
- F. Realistic sales projections and forecasts based on true investigation and research.
- G. Potential sources of money - list.

VII. Financial Analysis (Needs and Costs for Initiating/Buying/Enlarging the Business)

The entrepreneur must research and be able to list the following information with dollar amounts shown:

- A. Estimated cash required for the business.
 - a. Land lease or buy - how much?
 - b. Building lease or buy - how much?
 - c. Parking area improvement - who pays? How much?
 - d. Equipment needed - itemized with costs.
 - e. Merchandise inventory - itemized with costs.
 - f. Advertising costs - grand opening costs and subsequent budget.
 - g. Licenses, bonds, other costs - how much?
 - h. Operating capital needs - for 3 to 6 months.
 - i. Contingency funds - how much?
- B. Source of funds and application. (Where the Money is Coming From And Where It Will be applied)
 - a. List the major areas of financial application (such as equipment, merchandise inventory, advertising, and operating capital).
 - b. Show the amount provided by personal savings, friends and relatives for each area
 - c. Show the amount anticipated to be provided by bank loans (S.B.A. guarantee/other).
 - d. The total must agree with the total shown in your financial analysis section.
- C. Risk (A Function of the Firm's Ability to Make A Desirable Profit)
 - a. How much will be lost if the firm does not achieve its expectations?
 - b. Disaster plan - what will the entrepreneur do if his/her business gets in trouble or fails? (NOTE: Remember that over 90 percent of business failures are due to poor management!)

VIII. Financial Projections (Estimates of Monthly Income and Expenses)

The entrepreneur (with help, if needed) must provide the following information:

- A. A pro-forma profit and loss statement (income and expenses) for each month for the first year.
- B. A break-even analysis chart.
- C. Loan pay-back information - preferably amortized, identifying:
 - a. Amount of loan.
 - b. Rate of interest.
 - c. Terms of the loan (in years).
 - d. The entrepreneur's monthly payment.
 - e. The total number of payments

- f. The amount t of principal paid.
- g. The amount of interest paid.
- h. The total pay-back amount.

Appendix Exhibits

The entrepreneur (with help, if needed) should furnish the following information:

- A. Floor plan/plot plan
- B. Personal data sheet (resume)
- C. C Pro-forma profit and loss statement
- D. Break-even analysis chart
- E. Loan pay-back information
- F. Personal financial statement
- G. Letters of intent or contracts negotiated

Some Prerequisites for Success in Business

Most important to any person in business - particularly people who are planning to be entrepreneurs - is the development of the following abilities and activities

- A. Know where you are going by establishing your goals - write them down in advance.
- B. B. Develop the ability to plan. The planning function is the foundation of management.
- C. Develop the ability to communicate. You must be able to express yourself - orally and in writing - in a relevant, clear, interesting and believable manner.
- D. Maintain a positive attitude toward yourself, and others.
- E. Be persistent and determined.
- F. Follow through in a timely manner.
- G. Study the functions of management: planning, organizing, leading, controlling - and coordinating.
- H. Prepare yourself for the future -- NOW

SAS #27

CASHFLOW ANALYSIS

Understanding Cash Flow

To be competitive, small business owners must plan and prepare for all future events and market changes. Possibly the most important aspect of preparation is effective cash-flow planning. Failure to properly plan cash flow is one of the leading causes for small business failures in the United States. Experience has shown that many small business owners lack a general understanding of accounting principles. For this reason, a few of the basic principles will be covered. There also are self-instructional guides from which you can obtain a better understanding of accounting.

THE BASICS

Cash in business serves several purposes. First, it is used for meeting normal cash obligations (i.e., paying bills). Second, it is held as a precautionary measure for unanticipated problems. Third, it is held for potential investment purposes. The term "cash" refers to:

- Cash
- Checks
- Checking Accounts

THE OPERATING CYCLE

The operating cycle can be defined as the system through which cash flows, from the purchase of inventory through the collection of accounts receivable. It measures the flow of assets into cash and is, in effect, a "business stopwatch." For example, the operating cycle may begin with both cash and inventory on hand. Additional inventory is purchased on account to work as a cushion for future sales to guarantee that you will not deplete your stock. Except for cash sales, when some of your inventory is sold, accounts receivable increase, but your cash doesn't. Typically, you pay for the inventory you have purchased thirty days after it is received. When the payment for inventory is made, both cash and accounts payable are reduced. Thirty days after the sale of inventory, receivables are usually collected, which increases cash. Now your cash has completed its flow through the operating cycle and is ready to begin again.

CURRENT ASSETS

Cash and other balance sheet items which convert into cash within twelve months are referred to as current assets. Typical current assets are:

- Cash
- Marketable Securities
- Receivables
- Pre-Paid Expenses

A Plan is Necessary

Cash-flow analysis shows whether your daily operations have generated enough cash to meet your obligations, and it shows how major outflows relate to major inflows. As a result, you can tell if inflows and outflows from your operation combine to result in a positive cash-flow from operations or in a net drain. Any significant changes over time will also appear. Understanding this will lead to better control of cash-flows and will allow adequate time to plan and prepare for the growth of your business.

It is best to have enough cash on hand each month to pay the cash obligations of the following month. A monthly cash-flow projection helps to project funds and compare actual figures to past months. It is important to project your monthly cash-flow to identify and eliminate deficiencies or surpluses in cash. When cash-flow deficiencies are found, business financial plans must be altered to provide more cash. When excess cash is revealed, it might indicate excessive borrowing or idle money that could be invested. The objective is to develop a plan which will provide a well-balanced cash flow.

Planning a Positive Cash Flow

To achieve a positive cash flow, you must have a sound plan. Cash reserves can be increased by:

- Collection of receivables
- Tightened credit requirements
- Price of products
- Loans
- Increased sales

Collection of Receivables

Actively manage accounts receivable and quickly collect overdue accounts. Revenues are lost when a firm's collection policies are not aggressive. The longer your customer's balance remains unpaid, the less likely it is that you will receive full payment.

Tightened Credit Requirements

As credit and terms are tightened, more customers must pay cash for their purchases, thereby increasing the cash on hand and reducing the bad debt expense. While tightening credit is helpful in the short run, it may not be advantageous in the long run. Looser credit allows more customers the opportunity to purchase your products or services. But, be certain that the increase in sales is greater than the increase in bad-debt expenses.

Pricing of Products

The primary goal of business is to make a profit. Many small businesses fail to do so because they do not know how to price their products or services. Pricing is the critical element in achieving a profit as well as in maintaining positive cash flow, and is a factor all firms can control.

Before setting your prices, you must understand your product's market, distribution costs, and competition. Remember, the marketplace responds rapidly to technological advances and international competition. You must keep abreast of the factors that affect pricing and be ready to adjust.

Loans

Loans from various financial institutions are often necessary for covering short-term cash-flow problems. Revolving credit lines and equity loans are common types of credit used in this situation.

Increased Sales

Increased sales would appear to increase cash flow, but be careful. For many companies, a large portion of sales are purchased on credit. Therefore, when sales increase, accounts receivable increases, not cash. Collection of receivables is usually 30 days after the purchase date, and sales expenses are most often incurred before receivables are collected. When sales rise, inventory is depleted and must be replaced. Because receivables have not yet been collected, a substantial increase in sales can quickly deplete a firm's cash reserves. Again, by using a computer, you can maintain this critical data, as well as speed the time required to consider the "what if" concept.

Cash Reserve

You should always keep enough cash, as an added cushion for security, on hand to cover expenses. But, it is unwise to keep more money on hand than is necessary to cover your obligations. Excess cash should be invested in an accessible, interest bearing, low-risk account, such as a savings account, short-term CD or T-bill. Keeping excess cash on hand reduces both the growth and the return on investment.

Projections

Good accounting records and projections are important tools for a small business. Qualified accountants are necessary to help keep your records accurate and current. However, you can reduce your accounting expenses by producing your own summary statistics and projections.

Using A Personal Computer

With a personal computer, your business can have the added advantage of quick cash-flow projections as well as many other useful financial planning tools. A good financial-management package and computer will enable you to review projected inflows and outflows of cash from month- to-month or year-to-year. By analyzing these projections you can see the fluctuations in cash flow and create management policies to avoid potential shortfalls. There are numerous computer programs for making projections and keeping records and many advantages to having a personal computer for your business. The capabilities of modern computers are almost unlimited--they can aid in nearly every situation, from basic bookkeeping and "what if" analysis to inventory control or market demand projections. While a computer is not a specific requirement to success

for a small business, it is a business tool which in the future will separate the competitive from the mediocre.

How to Get More Information

SBA has a number of programs and services available. They include training and educational programs, advisory services, publications, financial programs, and contract assistance. Our offices are located throughout the country. For the one nearest you consult the telephone directory under U.S. Government or call the Small Business Answer Desk at 1-800-U-ASK-SBA. A free copy of The Small Business Directory of publications may be requested from your local SBA office or the Answer Desk. Other helpful sources include:

- State Economic Development Agencies
- Chambers of Commerce
- Colleges and Universities
- Public Libraries

COMPUTER ACCOUNTING PROGRAMS

Review of Best Accounting Programs for Small Business

SOURCE: PC COMPUTING MAGAZINE OCT 94 Pg 88, FEB 95 Pg 104, MAR 95 Pg 77

Some of the best programs were considered to be:

Intuit's QuickBooks 3.0 @ (est.) \$99
Peachtree Accounting 3.0 @ (est.) \$169
Bestware's M.Y.O.B. 5.0 @ (est.) \$79
Great Plain's Profit 2.0 @ (est.) \$249

These are all Windows programs and CD-ROM versions are preferable. If you require a program approved by the IRS or the Federal Accounting Standards Board, you should contact them for the latest approved list.

QuickBooks 3.0

QuickBooks is probably the easiest to use of these programs. Has capability for inventory management systems, invoices, billings, check register, invoice taxing tracking, finance charges, discounts, job costing, P&L's, balance sheets, and more. QuickPay @ (est.) \$49 additional provides payroll capabilities. Has 60 ready-made QuickReports and 15 business charts. This program was first choice of PC Computing Magazine. Their comments included "Easy access-even for the novice" "Ground-breaking inventory management and auditing" "A complete small business accounting package for the price of lunch"

Peachtree Accounting 3.0

User-friendly - Full featured - Has power to handle everything from very small business to a \$100 million company. Have built-in inventory and payroll modules. Have similar core accounting functions as QuickBooks. Can get started easily by picking one of 60 business templates. Pop-up guides provide help in customizing charts. Has many invoice templates for various products and service businesses. Have over 100 standard forms and financial reports which are easily customized. Has an enhanced set of analysis tools to track a company's health. Five custom spreadsheets are available to help with cash flow problems and analysis. PC Computing Magazine's comments include "Anticipates your needs" "Analysis and scheduling tools break new ground" "The most painless way to keep books"

BestWare's M.Y.O.B. 5.0

Good program, but PC's preference is toward Peachtree and QuickBooks. Their comments include "Lots of hand-holding during setup but customizing templates could be easier" "Cheaper and easier than DOS-based programs for accounting"

Great Plains' Profit 2.0

Again, a good program, but QuickBooks and Peachtree appear to be preferable. PC Computing Magazine comments "Highly structured format is both an asset and a liability" "If you demand GAAP (Generally Accepted Accounting Principles) compliance, Profit is a safe bet"

DAC-EASY is also a suitable small business accounting program.

BUSINESS ORGANIZATION TYPES

There are five types of business organization

- SOLE PROPRIETORSHIP
- GENERAL PARTNERSHIP
- LIMITED PARTNERSHIP
- LIMITED LIABILITY COMPANY (tax passthrough like an S-Corp.)

CORPORATION (& S-CORPORATION)

In the first two types, each "owner" has unlimited personal liability for all debts and liabilities of the business.

At least one member of the LIMITED PARTNERSHIP must be a general partner and assume unlimited liability for all debts and liabilities of the business.

The LIMITED LIABILITY COMPANY and the S-CORPORATION are treated like partnerships for tax purposes. The LIMITED LIABILITY COMPANY has fewer restrictions on ownership than the S-CORP.