

Financing your Business

When you start up in business, you'll need enough working capital to set yourself up, operate for perhaps several months until your first accounts are settled, and have some funds set aside for emergencies.

What financial resources will you need?

Calculating your financial needs will be part of your business plan. When you start up in business, you'll need to find enough cash to set yourself up and operate for perhaps several months until your first accounts are settled. An allowance for bad debts is always prudent, as is something set aside for emergencies.

You'll need to pay for some professional advice, put down the deposit on your truck, buy equipment and tools, pay for insurance and registration and meet other compliance costs. You will also need enough cash to buy supplies to operate your truck for several months. And you'll need to cover your living expenses.

The worksheet below will tell you when you'll need more cash for bills and when you'll be able to keep some aside. You'll also be able to work out how much you'll need from your business on average every fortnight or every month for your personal living expenses. This figure will be used in other calculations.

You can copy or print out the worksheet separately from the 'Useful Forms' chapter of this guide, or download it from the 'Owner-drivers guide' website, www.dpi.wa.gov.au/ownerdrivers.

Personal budget worksheet

Item	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Total
House													
Rent/mortgage payment													
Rates – council													
Rates – water													
Maintenance													
Insurance													
Domestic													
Food													
Clothing													
Entertainment													
Telephone													
Home mobile													
Electricity, gas													
Other													
Personal													
Health care													
Education													
Books, sport etc													
Other													
Motor vehicle													
Insurance, licence													
Repairs, services													
Fuel, running													
Loan repayments													
General													
Life assurance													
Superannuation													
Medical/hospital insurance													
Personal loan repayments													

Personal budget worksheet

Item	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Total
Credit card payments													
Other (1)													
Other (2)													
Other (3)													
Total monthly outgoing \$													

Calculate your start-up costs

The start-up costs worksheet on the next page will help you calculate how much you'll need to get your business going.

You can copy or print out the worksheet separately from the 'Useful Forms' chapter of this guide, or download it from the 'Owner-drivers guide' website, www.dpi.wa.gov.au/ownerdrivers.

You probably had to do a bit of research to fill in all your personal expenses and when those bills fall due. You'll need to do a bit more research before you can complete the start-up costs worksheet.

You may have some of the figures you need from your previous experience driving a truck. You may also need to talk to people in the industry or to some dealers and suppliers. And you could look through some trade magazines and industry publications for more information.

While you may not need to pay all your suppliers immediately, it's likely that you'll have to pay some of them before you have any money coming in.

You'll need to estimate how many months it will be before you start getting income from your work. This will depend on what companies you will be dealing with and what type of contracts you can put in place.

Generally, you should allow a minimum of 30 days for settlement of accounts.

Once you've decided on a figure, add a month or two for safety and use that figure when you're calculating how much cash you'll need to operate for that period.

Next you need to know if you can afford to go into business in your own right now. The following section, 'What's your personal worth?', will help you work this out.

Start-up costs worksheet	
Essential costs	
Deposit and/or initial lease or loan payments on your truck	\$
Equipment and tools	\$
CB radio and/or mobile phone	\$
Registration fees, permits and licences	\$
Initial insurance premiums	\$
Professional advice and services	\$
Supplies for several months' operation	\$
Fuel for several months	\$
Contingencies (say 10% of your expenses so far)	\$
Living expenses for several months	\$
Emergency fund (say operating and living expenses for two months)	\$
<i>Total essential costs</i>	\$
Non-essential costs	
Truck upgrade or modifications	\$
Laptop computer	\$
CD player	\$
Other (1)	\$
Other (2)	\$
Other (3)	\$
Other (4)	\$
<i>Total non-essential costs</i>	\$
Total start-up costs (= total essential costs plus total non-essential costs)	\$

What's your personal worth?

You need to have sufficient personal worth to start up any business. It has been shown that businesses with a lower gearing ratio (ie significantly more assets than borrowings) survive better than businesses with a higher gearing ratio.

Equity and gearing

Funds provided by the business owner are termed equity, as opposed to borrowed funds.

The ratio between equity and loans or borrowed funds is referred to as gearing.

High gearing means that the majority of funds come from borrowing and a smaller proportion comes from equity (eg \$10,000 equity - \$60,000 borrowed). Low gearing means that the majority of funds come from equity (eg \$60,000 equity - \$10,000 borrowed).

You need to calculate your personal worth so that you can make a judgement about whether or not you can afford to go into business on your own. You'll need to provide the same information to the financial institution you apply to when you want to borrow money or take out a lease.

Your chances of success will be better if you have enough capital to set up your business and have a reserve fund for when things get difficult, without borrowing heavily.

As a general rule of thumb, for every dollar you borrow, you should already have a dollar, preferably two – eg if you want to borrow \$50,000 you should have \$50,000 to \$100,000 in assets.

The worksheet below will help you calculate your personal worth.

You can copy or print out the worksheet separately from the 'Useful Forms' chapter of this guide, or download it from the 'Owner-drivers guide' website, www.dpi.wa.gov.au/ownerdrivers.

Again, you may need to do some research to find out how much your assets are worth today. Ask a real estate agent or a valuer for a figure on your house and land. The 'For Sale' section of the newspaper will give you an idea of how much your motor vehicle is worth after making allowance for the dealer's margin. If you have investments, the daily newspaper has information about shares in the stock exchange quotes, as well as current property listings.

Your personal worth is the difference between the sum of all you own (your accumulated assets) and the amount you owe to others (your liabilities).

Personal worth statement	
Assets	
Cash in the bank	\$
Real estate – house and land	\$
Household furniture and electrical items	\$
Motor vehicles	\$
Boat	\$
Insurance policies (surrender value)	\$
Superannuation	\$
Shares/stocks	\$
Other assets	\$
<i>Total assets</i>	\$
Liabilities	
Mortgage – house	\$
Car loan	\$
Personal loan	\$
Credit cards	\$
Other liabilities	\$
<i>Total liabilities</i>	\$
Personal worth (= assets minus liabilities)	\$

What are your financing options?

The information here will give you a basic outline of your options. You will need to get more information and advice before you make any decisions.

Sources of external finance

The major sources of external finance for small businesses are:

- trading banks
- finance companies
- venture capital enterprises
- merchant banks
- building societies
- credit unions
- creditors
- vendors

Some tips

Here are some guidelines to help you work out whom you should approach for funding.

Don't use short-term funds for long-term needs and don't use long-term loans for short-term needs. For example, a bank overdraft (short-term) shouldn't be used to buy plant and equipment (long-term investment) because the bank may withdraw the overdraft facility. On the other hand, arranging a three-year loan (long-term) to even out cash flow fluctuations may result in you paying more for finance than you need to, because of the higher interest rate.

Consult your accountant before acquiring or disposing of any significant assets. The timing, financing and method of disposal all have income tax, GST and capital gains tax implications.

Don't borrow less than you need but be sure you will be able to meet your repayments. If you are unable to borrow more later on, you could risk losing your business.

Your accountant will also advise you on whether to finance the purchase of your truck by loan, hire purchase or leasing. (See 'What about finance?' in the previous chapter.)

Short-term funding

Short-term funding is used to finance working capital and seasonal deficits, and smooth out cash flow fluctuations.

Some sources of short-term funding include overdrafts, bank bills, commercial bills and factoring (where, for a fee, someone else pays you the money that your customers owe you and then collects it from them).

Long-term funding

Long-term finance is a loan repayable over a number of years. It is mainly used for capital purchases like plant and equipment, land and buildings, and major expansion projects.

Term loans, leasing and hire purchase finance may be appropriate funding for capital purchases.

Applying for a loan

1. Look objectively at the future of your business. What do you need funding for? Do you need short-term or long-term funding? How are you going to generate the money needed to repay the loan?
2. Be confident when you seek a loan. You are selling a business proposition and the lender should make a profit from lending you money. You have to convince the lender that they are not taking a huge risk. Have plans ready to show how you would cope if a risk arises.
3. Approach your bank to see if they would be prepared to consider lending you money against the securities you can offer. You'll need to prepare a proper application, including a business plan.
4. Get together the following information for your application:
 - How much money do you need?
 - What type of loan do you want?
 - When will you need the money?
 - What you will use the money for?
 - How will you repay the loan? Have copies of any contracts you have negotiated. Detail your projected income and *all* your costs.
 - How long do you want the period of the loan to be?
 - What security can you offer in return for the loan? You may need to get independent and realistic valuations of assets offered.

- Personal information should include your age, education, experience and personal worth, together with a statement of your personal financial needs. What funds do you need to cover your living costs while you are setting up your business?
 - Information about your business should be included in your business plan. Include a short history of your business, your plans for the future, current and past years' accounts if it is an existing business, and a cash flow projection for both existing and new business ventures. Also include information about funds you already have and amounts owing to you. List your assets and liabilities, bank balances and other deposits or investments. (See the following chapter, 'Getting Started', for more tips on putting together your business plan.)
 - What is your previous borrowing history? What other commitments do you already have? List loans, hire purchase and leasing agreements.
5. Present the information in a bound document if you can – ideally make three copies: two for the bank and one for your files. Include copies of all relevant documents and contracts. If your accountant prepares the documents for you, make sure you get an explanation of everything that's included so that you can answer any questions put to you by the bank.

Be absolutely honest with your claims. Do not exaggerate your earnings, downplay your expenses or conceal any shortcomings. You must get your loan solely on the basis of merit because your venture is viable. Above all, do not delude yourself by being overly optimistic.