

DETERMINING YOUR START UP COSTS

1. Determining Your Start Up Financing Requirements

Every business must demonstrate to investors where the money is required. Every new business must clearly display the start up costs.

Make Sure Your Calculations Answer the Following Questions

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- Do you need a new building, land or upfront rent?*
- Do you need any new equipment or tools?*
- What supplies and materials are needed?*
- Do you need a vehicle for deliveries or to visit your customer?*
- Do you need to renovate your premises (or your vehicle)?*
- How much will your initial advertising cost be?*
- Do you need special packaging, labels, letterhead, etc?*
- What are your licensing fees, membership dues, name registration costs and business registration expenses?*
- Will there be any professional fees for start up?*
- Any other costs – insurance, utility installation & hookup?*

Now To Determine How Much Start Up Financing is Needed.....

	<i>Total Start Up Costs</i>	\$ _____
Minus	<i>How Much You Will Contribute</i>	\$ _____
Equals	<i>Start Up Financing You Require</i>	\$ _____

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2. Determine Your Working Capital Requirements

As the business establishes itself, it will most likely have low sales volumes. Often the business is not able to generate enough revenue to cover the first few months (usually at least three) of operating costs. What is needed is working or operating capital to get over the “hump”.

To determine your operating costs you must complete a **Cash Flow Statement**. Your cash flow will display the cumulative monthly expenses of your first months of operation. Your working capital (also called operating costs) loan should cover the monthly shortfall that would occur if sales do not materialize. If possible, acquire a short-term loan for these expenses (ex. Get a line of credit or a company credit card.)

⇒ **Remember to be conservative with your sales expectations or your working capital financing will not be sufficient.**

A rule of thumb for calculating working capital requirements is to multiply the average monthly operating expenses by two or three.

If you cannot get enough working capital reassess your expenses, reconsider giving credit to customers, keep less inventory, find suppliers who will give you credit and visit your accountant.

	Total Start Up Costs	\$ _____
<i>Minus</i>	Equity Contribution	\$ _____
<i>Plus</i>	Working Capital Required	\$ _____
<i>Equals</i>	<u>Total Financing Required</u>	\$ _____

SUMMARY OF ESTIMATED MONEY NEEDS

- | | | | |
|------------|--|----------|----------|
| 1. | Land/building | \$ _____ | |
| 2. | Machinery/equipment | \$ _____ | |
| 3. | Furniture/office equipment | \$ _____ | |
| 4. | Inventory/materials | \$ _____ | |
| 5. | Consulting fees or miscellaneous expenses | \$ _____ | |
| | _____ | \$ _____ | |
| | _____ | \$ _____ | |
| | _____ | \$ _____ | |
| 6. | Anticipated operating cash required
(Accounts receivable, marketing, financing,
supplies, wages, utility deposit or other) | | |
| | _____ | \$ _____ | |
| | _____ | \$ _____ | |
| | _____ | \$ _____ | |
| 7. | Total Project costs (add lines 1 thru 6) | | \$ _____ |
| 8. | Amount of personal funds you plan to invest | \$ _____ | |
| 9. | Amount invested by partners, stockholders
Or other investors | | |
| | _____ | \$ _____ | |
| | _____ | \$ _____ | |
| 10. | Total Investment (line 8+ line 9) | | \$ _____ |
| 11. | Balance of money needs to be financed (line 7 – line 10) | | \$ _____ |

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YOUR FINANCING CHECKLIST

Run through the following checklist to ensure that you have thought of everything. Reduce the chance of “surprise\$”

	YES	NO
Have you determined your potential return on investment in this business? Is it an acceptable figure?	—	—
Have you determined the amount of capital you need to start your business?	—	—
Have you determined how much capital you can raise on your own?	—	—
Do you have enough ready cash to pay your bills during the early months of the business?	—	—
Have you allowed for the following expenses in your financial planning?		
Rent	—	—
Supplies	—	—
Utilities	—	—
Equipment	—	—
Furnishings	—	—
Licenses	—	—
Telephone	—	—
Wage and Salaries	—	—
Employee Benefits	—	—
Inventories	—	—
Advertising and Promotion	—	—
Professional Fees	—	—
Transportation	—	—
Tax	—	—
Interest	—	—
Have you allowed a reasonable income for yourself?	—	—
Have you determined and obtained your borrowing requirements?	—	—
Have you established a credit rating?	—	—

5 FINANCING QUESTIONS

- 1. How much do you need?**
- 2. What will you do with it?**
- 3. When will you pay it back?**
- 4. How will you pay it back (cash flow)?**
- 5. What if something goes wrong?**