

Arranging Financing



YOUR CA AND BUSINESS ADVISORY SERVICES

**The Business Advisory Services Committee
The Canadian Institute of Chartered Accountants**

Staying on course

Your CA can monitor your financing repayments and make sure your cash flow is being managed to get the most effective debt repayment program.

Usually, loans or grants are tied to a particular purpose, and it is important for the lender to be assured that the terms of the loan are being carried out and the security requirements are all in place. Your CA can set up the communications program, acting as an intermediary between you and the lender to make sure both parties are kept in the picture.

Why a CA?

Most business people aren't involved in obtaining financing on a regular basis. Your CA is. And the CA has the expertise in setting up a package, the network of contacts to know where to go and who to see about financing, and the experience in making the presentations. You can concentrate on your business. And then your CA has another successful client. And that's the aim of the CA's business.

At various times, you may need to arrange financing for your business. Contact your CA. You know best how to run your business, how to make that financing pay off. Your CA knows how to arrange the most suitable deal for you.

It is important to avoid some common pitfalls, such as:

- choosing the wrong lending institution
- bad timing of an application
- obtaining the wrong type of financing
- over or under-estimating the amount of financing required
- failing to match real needs with available solutions
- failing to understand the real costs and risks of borrowing, or
- giving away too much security.

Determining the need

As part of the advisory services for your business, your CA will assist you in preparing a forward plan covering your objectives and how you are going to reach them. Part of the plan sets out the cash requirements and any financing necessary to meet those objectives.

This process will include the objective evaluation of the potential to obtain greater benefit from existing funds, including sale of surplus assets for cash or improved management of working capital and, particularly, inventories and accounts receivable.

It is important to know in advance if you'll need financing. With early identification of your needs, alternative financing strategies can be developed and competitive proposals sought.

You and your CA will prepare a clear statement outlining the purpose of the financing — to acquire new assets, satisfy seasonal cash shortages, refinance existing loans, finance growth in accounts receivable and inventories, etc.

Understanding the purpose of the financing is fundamental to obtaining the most suitable type of loan or equity capital.

Perhaps the most important element your CA can help with is assessing the business's ability to support the loan costs and repayment commitments. Projected operations must be examined to be sure that they will support the financing that is being sought. Detailed cash flow projections for the short and medium term are essential. Your CA can assist in the preparation of the supporting information or can act as an objective reviewer, providing comments and advice to improve the quality of the assumptions and projections.

Factors to consider

A number of factors will influence the selection of a particular financing alternative at a specific time. These include:

- after-tax costs of different types of financing
- market availability of each type
- nature of the company or project requiring financing
- effect of a particular financing alternative on the company's existing capital structure
- possible impact on future financing, and
- integration of tax and financial planning for the business and its owners.

What type of financing?

The current business environment presents a wide range of financing options — from a basic operating line of credit to raising money in the stock markets.

Determine the instrument or arrangement most suited to your objectives. Short-term or long-term loan? Leasing? Sale and leaseback? Government grant? Mortgage? Factoring or discounting of receivables? Inventory financing? Franchising? Venture capital?

Your CA can assist in assessing the alternatives and important considerations such as how much security you can provide, and the impact of security obligations and interest rates on your business's earnings and financial statements — and on you.

It is important to discuss the long-term consequences of the package you choose and understand, for example, the possible consequences of providing a personal guarantee.

Sourcing

Your CA knows about the range of sources for financing — credit unions, banks, mortgage institutions, venture capitalists, private or public placements. For qualifying businesses, there are a number of government programs, such as incentive-based grants, government lending institutions or the agency for export financing.

Putting the package together

Once you've determined your needs, the best type of financing and the best sources as lenders, then your CA will help you put the financing package together. This isn't just the numbers; the presentation is important too.

A prospective borrower must not only be able to service the debt, but must also demonstrate this ability with well prepared, high-quality financial, statistical and descriptive information.

Lenders derive confidence from a well organized approach. Your CA can help you prepare a comprehensive business plan. This will include a description of the business, its markets, personnel, products, location and equipment, well supported by financial statements, annual forecasts and a statement of net worth.

Your CA will accompany you to make the presentation to the lender. You may be experienced in this kind of dealing and able to put your case for financing in language the lender can understand. But if you're not, your CA can make sure *your story* comes across loud and clear.

Lending institutions want to provide financing. That's their business. But they need the right information.
