

# Writing a Business Plan - One Step at a Time

*A step-by-step system for new entrepreneurs.*

## Booklet 3 - Start-Up Assets & Investment



Your “investment” is everything you already have or plan to put into your business, including money, equipment, supplies, inventory, land and buildings or vehicles. Each category will require you to list items you already own, at realistic resale value, as well as those you plan to purchase. Signed quotes should be obtained for as many of these items as possible. You will need to be able to justify each and every piece of information in your business plan.

**It is extremely important that you use realistic resale or present value when pricing used items.** People who sell used items may be able to help you estimate resale value - pawn shops, used or consignment stores, car and equipment dealers, auctioneers, or real estate agents.

**Always remember to include all taxes when estimating your purchase costs.**

### The Difference between ASSETS & EXPENSES

This section will deal with the purchase of start-up “assets”. In the simplest terms, “**assets**” are items owned by a business and “**expenses**” are used up in the operation of the business.

For example:

**Assets** (inventory, equipment, vehicles, and buildings) can all be resold and have some lasting value.

**Expenses** (advertising, utilities, insurance, and travel) are “used up” and you have nothing concrete to show for the money you spent.

### Worksheets

- 3-1 Cash Invested in the Business
- 3-2 Land & Buildings
- 3-3 Building and Leasehold Improvements
- 3-4 Equipment & Furniture
- 3-5 Vehicles
- 3-6 Inventory
- 3-7 Other Assets
- 3-8 Goodwill



**3-1 Cash Invested in the Business**

Cash

Money already spent towards starting your business:

_____	
_____	
_____	
_____	
_____	
_____	
_____	_____
_____	
_____	
_____	
_____	

Total already spent

Total cash Invested

### 3-2 Land and Buildings

This section is used for land and buildings you already own or plan to purchase for your business. Rented property will be discussed later.

Land and Buildings John owns and is putting into the business:

John has purchased a shop and lot next to his home. He wanted to use it in his business, but he did not know the value. The real estate people in his community placed a value on his land and buildings and gave him a copy of the “appraisal” (the paper that stated the value of the property), which he will attach to his business plan. He had to pay for this document but the banker felt it was important.

Legal Description	Land Value	Building Value
Item #1 <u>Shop 50 X 60 - Lot 3, Blk. 12, Plan AG4321</u> <u>Copy of Title attached</u>	<u>\$3000</u>	<u>\$5000</u>
Total Invested	<u><u>\$3000</u></u>	<u><u>\$5000</u></u>

Land & Buildings to be Purchased:

If you need to purchase land and/or buildings for your business, you need the “legal description” and a document signed by the seller, stating the purchase price.

Legal Description	Land Value	Building Value
Item #1	<u>N/A</u>	
Total to be Purchased	<u>                    </u>	
Total Land and Building (what he already owns and is purchasing):	<u><u>\$3000</u></u>	<u><u>\$5000</u></u>

**3-2 Land and Buildings**

Invested	Legal Description	Land Value	Building Value
Item #1	_____	_____	
Item #2	_____	_____	
Item #3	_____	_____	
Total Invested		=====	

Purchased	Legal Description	Land Value	Building Value
Item #1	_____	_____	
Item #2	_____	_____	
Item #3	_____	_____	
Total Purchased		=====	
Total Land and Building		=====	

### 3-3 Building and Leasehold Improvements

“**Building Improvements**” includes all costs to improve your land or buildings. “**Leasehold Improvements**” is your cost to improve any property your business is planning to rent or lease.

You may need to talk to the following to see if any government regulations apply to your business:

- Public Health Department (for public safety regulations)
- Department of Environment (for waste disposal regulations)
- Occupational Safety Board (for employee safety regulations).

These are all provincial departments and their phone numbers can be found in your blue pages. These regulations may or may not apply to your particular business, but it is important to check before you start.

NOTE: Take the time to make your lists as complete as possible. Include everything from building permits to doorknobs. It's the little things that add up and become big surprises.

John owns the building he will be using for his business. He obtained signed estimates from carpenters, plumbers, and many other people in order to make accurate lists of his renovation costs.

Building or Leasehold Improvements Invested by John  
(things he already has and will be using to renovate his building) :

<u>Lumber ( 40 2x4s, 4 sheets 1/2" plywood)</u>	<u>\$400</u>
<u>Window (3'x4', triple-pane)</u>	<u>300</u>
<b>Total Invested</b>	<u><u>\$700</u></u>

Building or Leasehold Improvements that John will purchase or hire someone else to do:

<u>Labor and digging to install pit and hoist</u>	<u>\$937</u>
<u>Concrete and installation for pit and shop floor</u>	<u>1107</u>
<u>Rebar</u>	<u>184</u>
<u>Bathroom, sink, plumbing (detailed breakdown attached )</u>	<u>2356</u>
<u>Overhead Door (materials &amp; installation)</u>	<u>1984</u>
<u>Allowance for Miscellaneous or unexpected costs</u>	<u>500</u>
<u>Written estimates included</u>	
<b>Total to be Purchased</b>	<u><u>\$7068</u></u>
<b>Total Leasehold or Building Improvements</b>	<u><u>\$7768</u></u>



### 3-4 Equipment & Furniture

List all equipment and furniture you will be investing in your business. Next, obtain estimates for any you plan to purchase.

NOTE: Don't forget to include installation charges.

John has many of his own tools, so his invested equipment list will be quite long. He has decided to use the workbook form as a summary page and attach a more detailed list. He also wants to show the purchase price of his tools as well as the used resale price.

Equipment & Furniture Invested by John:	Purchase Price	Present Value
<u>Automotive Tools (Detailed List Attached)</u>	<u>\$7500</u>	<u>\$3000</u>
<u>Desk &amp; chair</u>	<u>400</u>	<u>150</u>
<u>Filing Cabinet, Coffee Pot, Adding machine</u>	<u>375</u>	<u>150</u>
<b>Total Invested</b>	<u><u>\$8275</u></u>	<u><u>\$3300</u></u>

Equipment & Furniture that will be Purchased by John:	Cost (including taxes)
<u>Fax Machine (Pertisonic TX-43)</u>	<u>\$388</u>
<u>Diagnostic Kit (Black&amp;Sims DR545-78)</u>	<u>432</u>
<u>Tire Changer - used (1995 Soner 67)</u>	<u>1500</u>
<u>Welder (Tanison Model # 9876)</u>	<u>1800</u>
<u>Tester (Black&amp;Sims GT657-87)</u>	<u>2300</u>
<u>Cylinder Ridge Cutter</u>	<u>95</u>
<u>Tow Rope</u>	<u>40</u>
<u>Parts Shelving Units 4 @ \$23 plus taxes</u>	<u>107</u>
<u>Test Light</u>	<u>25</u>
<u>Allowance for other small tools and freight</u>	<u>100</u>
<u>Written estimates attached</u>	
<b>Total to be Purchased:</b>	<u><u>\$6,787</u></u>
<b>Total Value of Equipment &amp; Furniture invested and to be purchased</b>	<u><u>\$10,087</u></u>



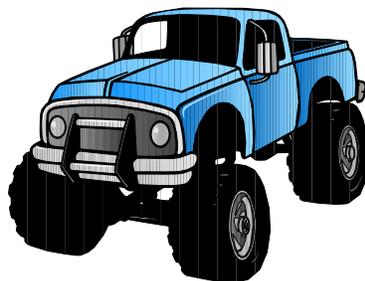
### 3-5 Vehicles

Vehicles you own and plan to use in your business should be listed here at “present value”. This is the resale value and may be obtained from a local car dealership or lender. Vehicles you plan to buy should be listed at purchase price.

John has a half-ton truck that he plans to use but he needs a tow-truck. He has found a truck he would like to buy and has a signed quote from the owner, stating the purchase price.

Vehicles Invested by John:	Purchase Price	Present Value
<u>1994 Chev Ranger 1/2 Ton</u>	<u>\$7000</u>	<u>\$3000</u>
<b>Total Invested</b>	<u><u>\$7000</u></u>	<u><u>\$3000</u></u>

Vehicles to be Purchased:	Cost (including taxes)
<u>1989 1-Ton Ford diesel Truck with new mounted winch</u>	<u>\$4500</u>
<b>Total to be Purchased:</b>	<u><u>\$4500</u></u>
<b>Total Value of Vehicles invested and to be purchased</b>	<u><u>\$7500</u></u>



**3-5 Vehicles**

	Purchase	Present
Invested	Price	Value
_____	_____	
_____	_____	
_____	_____	
_____	_____	
Total Invested	=====	

Purchased	Cost
_____	
_____	
_____	
_____	

Total Purchased

Total Vehicles



### 3-6 Inventory

Invested	Present Value
_____	_____
_____	
_____	
_____	
_____	
_____	

Total Invested

Purchased- Detailed List Attached	Cost
_____	
_____	
_____	
_____	
_____	
_____	
_____	
_____	
_____	
_____	
_____	
_____	
_____	

Total to be Purchased:

Total Inventory



### 3-7 Other Assets

“Other Assets” is used to list things of value that do not fit into the categories above. Examples might include animals, franchise fees, or special equipment (computer, heavy duty equipment, books, etc.).

John used this category to describe parts books he owned or needed to purchase.

Other Assets Invested by John:	Purchase Price	Present Value
<u>Parts Book --Ford PK34222</u>	<u>\$207</u>	<u>\$150</u>
<u>    --Napa DA996688</u>	<u>384</u>	<u>200</u>
 Total Invested	 <u>\$591</u>	 <u>\$350</u>
 Other Assets to be Purchased by John:	 Cost (including taxes)	
<u>Parts Books -GM GL986</u>	<u>\$207</u>	
<u>    --Foreign Models DA5656</u>	<u>327</u>	
 Total to be Purchased:		 <u>\$534</u>
 Total Value of Other Assets invested and to be purchased		 <u>\$884</u>



### 3-8 Goodwill

The only time to consider “Goodwill” is if you are purchasing an existing business.

“**Goodwill**” is the “extra” money that is paid to buy someone’s “business” - not his vehicles, inventory, tools - but his “business” . It is important to know this amount because banks will usually lend for “assets” but not goodwill.

For example: Tom wants to sell Peter his business for \$50,000.

Tom says that the value of the assets (what he is selling to Peter) is as follows:

Vehicle	\$6,300		
Inventory	\$24,700		
Equipment & Furniture	\$15,000		
Leasehold Improvements	\$4,000	Total	\$50,000

Peter checked the value of the assets of Tom’s business. He talked to used car dealers, used and consignment furniture stores, suppliers and people in similar businesses. The “present value”, as close as Peter could determine, is as follows:

Vehicle	\$5,800		
Inventory	\$19,000		
Equipment & Furniture	\$14,300		
Leasehold Improvements	\$3,600	Total	\$42,700
Goodwill	Difference in Value (Purchase price minus present value)		\$7,300

If the difference is a **positive number**, you are paying goodwill. In this example, Peter is paying \$7,300 in goodwill.

If this amount is **negative**, Jim is paying less than the value of the assets of the business and is not paying any goodwill. Goodwill is zero.

NOTE: In a business plan, the assets that Peter purchases must be listed in their sections at “present value”, not Tom’s price. The “extra” \$7,300 that Peter is asking for his “business” is actually Goodwill and must be listed as such. Peter must decide if the “business” is worth the “Goodwill” cost.

John is starting a new business, so he will not have any goodwill cost.

### 3-8 Goodwill

#### Seller's Asking Value

Land & Building

Vehicle

Inventory

Equipment & Furniture

Leasehold Improvements

Other Assets

\_\_\_\_\_

Total

#### Present or Assessed Value

Land & Building

Vehicle

Inventory

Equipment & Furniture

Leasehold Improvements

Other Assets

\_\_\_\_\_

Total

Goodwill

Difference in Value

(Seller's price minus present value)

If this number is a **positive number**, then this is the amount of goodwill paid.

If this number is a **negative** number, the buyer is not paying any goodwill. Goodwill is zero.

## **Glossary**

**appraisal** - an estimate of the value

**assets** - items owned that can be resold

**document** - a piece of paper providing information

**expenses** - items used up in the operation of a business

**franchise fees** - the cost to obtain the right to sell a company's product or service

**installation** - to set up for use

**invested** - to put money or assets into a business

**renovation** - restore to good condition

**summary** - to tell in a shorter way by giving only the main points

**utilities** - services such as power and water