Business Venture INSIGHTS

Business Venture Insights is a downloadable document outlining tasks and activities to assist you with the accounting, financial and tax related issues that must be considered when starting your new business.

Welch LLP

Far too often, people are so eager to start a new business or product, that they end up skipping some very important considerations. This is one of the major reasons that so many new businesses fail within the first five years. This guide will help you ensure that you have taken the necessary steps into what will be a rewarding and profitable experience.

With the potential rewards and achievements as the motivators for your decision to start-up, it is equally important to be realistic about the risks and frustrations that may be encountered. With careful planning, good organization and professional advice, you can help to ensure risks are foreseen and minimized with the frustrations and surprises being manageable.

Business Venture Insights is intended to provide a general outline of tasks and activities to assist you with the accounting, financial and tax related issues that must be considered at the outset of your new business venture.

It is important to note that information contained in this guide is current as of the date of publication. New tax legislation and changes to business regulations are changing continuously. With the introduction of new accounting software, tax related programs and the proliferation of information available through Internet-based sources, it is highly recommended you seek the advice of a professional advisor to confirm comments contained in this guide are current.

The Partners and staff of Welch LLP, Chartered Accountants, would be pleased to provide you with personalized advice and assistance for your new business.

"Providing Insight to Our Clients"

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APPENDIX A: GLOSSARY OF TERMS

Chapter 1: Legal Form of Entity

The form of legal entity which you select for your organization will have significant implications with regards to how you are protected under the law and are affected by income tax rules and regulations. There are three basic forms of business organizations; sole proprietorship, partnership and corporation. Each present positives and negatives and are treated differently for legal and tax purposes.

Sole Proprietorship

A *sole proprietorship* is typically a business owned and operated by one individual, or by a husband and wife. A sole proprietorship is not considered to be a legal entity under the law; rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the liabilities incurred by the business. The income or loss of a sole proprietorship is combined with the other earnings of the proprietor for income tax purposes.

A sole proprietorship is the easiest form of business to own and operate. It does not require any specific legal organization except, of course, the normal requirements such as licenses or permits. The business decisions are solely the result of the owner's abilities.

If the proprietorship is to be operated under a commercial name different from the given name of the proprietor, the name must be registered in Ontario under the Business Names Act, (see page 2-2). Registering your business name provides a degree of protection against others from using the name.

Topics of Discussion in this Chapter:

- Sole Proprietorship
- Partnership
- Corporation

Proprietors operating in other provinces should pursue possible registration requirements with the respective authorities.

Partnership

A *partnership* can take two legal forms; *general or limited*. In a *general partnership*, two or more individuals or corporations join together to operate the business enterprise. Each partner has ownership of the business assets and is accountable for liabilities. The authority of running the business, and the way in which profits or losses are to be shared, can be modified through a partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners.

A *limited partnership* is comprised of one or more general partners who are personally liable for partnership debts and one or more limited partners who contribute capital and share in the profits or losses of the business. The limited partners do not take a part in running the business and are limited in their liability for the debts of the partnership to their level of contributions.

The rights, responsibilities and obligations of both the limited and general partners are often outlined in a partnership agreement. It is a good idea to have such an agreement for any partnership, whether limited or general. Partnership creditors generally have recourse to the personal assets of each of the partners (assuming the partners are individuals and not corporations) for settlement of partnership debts.

A partnership is a legal entity recognized under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, creditors may require the *personal guarantee* of the general partners.

Depending on the size of a partnership it may be required to file federal income tax information returns but the partnership does not pay income tax. The information from the partnerships annual return is combined with the personal or corporate income of the partners to determine their overall personal or corporate tax liability.

Corporation

A corporation is a separate legal entity that exists under the authority granted by federal or provincial law. A corporation has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file income tax returns and pay taxes on income it derives from its operations. Generally, the owners, or shareholders, of a corporation are protected from the liabilities of the business. However, when a corporation is small, creditors often require *personal guarantees* of the principal owners before extending credit. The benefits of legal protection afforded the owners of a corporation can far outweigh the additional expense of starting and administering the corporation.

A corporation must adopt and file articles of incorporation and by-laws, which govern its rights and obligations to its shareholders, directors and officers. Corporations must also file annual income tax returns with Canada Revenue Agency (CRA) and, depending on the province, with the appropriate provincial Ministry of Revenue. They must also file an annual return with the incorporating jurisdiction.

Incorporating a business allows a number of other advantages including the ease of generating additional capital through the sale of equity, permitting an individual to sell or transfer his/her interest in the business. It also provides for business continuity when the original owners choose to retire or sell their interest. Also, the business owners must decide if they require all of the income generated by the business, and which has lower rate of tax paid, the corporation or the individual.

In the event that the corporation will have two or more shareholders it is wise to formulate a shareholders' agreement. This agreement can cover a number of areas including the transfer of shares, the timing and method of profit distribution, etc. When you decide to incorporate your business venture, you should seek legal advice from a competent, business oriented law and accounting firms. It is important that you seek legal advice right from the beginning so that organizational by-laws, resolutions and share issuances are properly documented.

Chapter 2: Registering with the Relevant Tax Authorities

As a new business owner, you must ensure the business is complying with the extensive tax and information filing requirements imposed by various governmental agencies. Stiff penalties are commonly assessed if the required forms and returns are not properly prepared and filed on a timely basis.

Several forms are required to be filed at the start-up of a business. While this chapter is not intended to provide an all-inclusive list of the filing requirements common to all businesses, it summarizes some of the more prominent requirements that a new business will face.

Some industries may have specific filing requirements that are not part of this guide, but which nevertheless must not be overlooked. *Professionals with experience in your industry should be consulted to ensure that any such filings are properly handled to avoid unnecessary penalties.*

Canada Revenue Agency

Canada Revenue Agency (CRA) requires all new businesses to register by way of a numbering system entitled the "Business Number" (BN). The BN covers four CRA accounts that affect most businesses:

- Payroll deductions (see Chapter Four),
- Corporate income tax (see Chapter Six),
- GST and HST (see Chapter Seven)
- Import/export accounts

Topics of Discussion in this Chapter:

- CRA
- Federal vs. Provincial
- Province of Ontario
- Province of Quebec
- Local Government
- Tax Calendar

Over the next few years, the BN will be expanded to include other federal business programs. Businesses can now register themselves for the CRA, Nova Scotia, British Columbia and Ontario business programs through the Internet. This easy to use, one-stop service guides Internet users through the registration process in an efficient manner. Helpful features, such as pop-up messages are displayed when missing or incorrect information is entered. The system is referred to as "BRO" (Business Registration Online).

www.businessregistration.gc.ca

BRO is tailor-made for small and medium sized businesses that do not have complex registration requirements. While almost all Canadian businesses can use BRO, the service does not offer registrations to:

- Non-residents seeking to do business in Canada
- Businesses registering only for a BN for a corporate income tax account.

Businesses that incorporate federally with Industry Canada or provincially with Nova Scotia get a Business Number at the time their articles of incorporation are processed. After the CRA mails confirmation of this Business Number (usually within five days), businesses can use it to register for other CRA, Ontario, Nova Scotia, New Brunswick or British Columbia programs (e.g.: GST/HST, Ontario Retail Sales Tax, New Brunswick Business Name or Workers' Compensation Board of Nova Scotia accounts).

To print the CRA business registration form (RC1(E)), visit the CRA web site www.cra-arc.gc.ca/tax/business/topics/bn/register/menu-e.html. To order a business registration form, call toll-free at 1 800 959-2221. If you are a sole proprietor with more than one business, the same BN will apply to all your businesses. Once you complete the form, submit it (mail, fax, or visit) to any Tax Services Office listed at www.cra-arc.gc.ca/contact/tso-e.html

Certain partnerships may also require a separate federal account number. In order to obtain this number the partnership must complete CRA form T5011, which is available at all District Taxation Offices (See Appendix 1).

Federal vs. Provincial Incorporation

A federal corporation has the right to carry on business anywhere in Canada under the corporation name; however, registration of a name may be required in any province or territory where business will occur. Federal corporation names are protected across Canada whereas there is very little protection for provincial incorporation names. There is an annual filing fee for Federal corporations and no annual fee for Provincial corporations. Provincial corporations must register extra-provincially if operating in other provinces.

Province of Ontario

If your business (regardless of the form of entity chosen) includes employees or you are operating as a sole proprietorship without employees and, in either case, you are operating from a base in Ontario, you may be required to register for the payment of the Ontario Employers Health Tax (see Chapter Four). Registration can be done by contacting the Ontario Ministry of Revenue at 1-800-263-7965.

If your business includes the sale of insurance products subject to retail sales tax you may require an Ontario Retail Sales Tax Vendor number. This number is the sales permit required in Ontario and may be issued by any Retail Sales Tax Office (see Chapter 7).

In Ontario, an unincorporated business may be required to register the commercial name of the business. If your business will operate under a commercial name different from the proprietors' given name, it will require registration in Ontario. More information can be obtained from the Ontario Ministry of Consumer and Commercial Relations, Ottawa Land Registry Office, 161 Elgin Street, Ottawa, Ontario, K2P 2K1 (1-800-268-1142).

Finally, you should determine if your business requires registration with the Ontario Workplace Safety and Insurance Board. In Ottawa the New Business Information Centre can be contacted at 613-237-8840.

Registration for Ontario programs can be performed on-line. Services available through ServiceOntario at http://www.ontario.ca/en/services_for_business/STEL02_039990.

- Register/Renew your business name
- Business name search
- Amend your business information
- Retail Sales Tax Vendor Permit (Provincial RST for insurance)
- Employer Health Tax (EHT)
- Workplace Safety and Insurance Board (WSIB)

Province of Québec

For businesses operating out of the Province of Québec, a Revenue Québec number will be required for payroll withholding tax purposes, corporate income tax purposes, and Québec Sales Tax purposes (see Chapter Four). All of this information is gathered on one application form, Revenu Québec, Information Return LM1, which is available at all district offices of Revenu Québec. Registration for workers' safety and compensation can be accomplished by phoning The

Québec Commission de La Santé et de la Sécurité du Travail at 819-778-8611.

Local Governments

Depending on the type of business you are operating, you may be required to obtain local licensing from the municipality or township in which you operate. Furthermore, you may be required to pay local Business Tax. For more information you should contact the general information service in your municipality.

Tax Calendar

The following summarizes some of the more significant filing dates for individuals, partnerships, corporations and shareholders, which operate on the basis of a calendar year end. Note, however, if a fiscal reporting year end other than December 31 is used (See Chapter 5: Selecting Year End) some of these dates will vary.

January

31 • Corporate Tax Installment
• Prior Year Fourth Quarter GST/HST Return

February

28 • T4 and T4 Summaries reporting annual payroll information
• T5 and T5 Summaries reporting annual investment income information
• Corporate Tax Installment
• Remainder of prior year's tax liability if income of associated group exceeds small business deduction limit for preceding year
• Deadline for RRSP contributions deductible in prior year

March

15 • Personal Tax Installment
• Employer Health Tax Return
31 • Corporate Tax Installment
• Remainder of prior year's tax liability if total taxable income of associated group is less than small business deduction limit for preceding year *and* corporation is a Canadian Controlled Private Corporation
• GST/HST Return for Annual filers other than individuals
• Annual Partnership Information Return

April

30 • Corporate Tax Installment
• Personal Tax Return (for other than self-employed individuals)
• First Quarter GST/HST Return

May

31 • Corporate Tax Installment

June

15 • Personal Tax Installment
• GST Return for annual filers who are individuals
• Personal Tax Return for self-employed individuals
30 • Corporate Tax Return
• Corporate Tax Installment

July

31 • Corporate Tax Installment
• Second Quarter GST/HST Return

August

31 • Corporate Tax Installment

September

15 • Personal Tax Installment
30 • Corporate Tax Installment

October

31 • Third Quarter GST/HST Return
• Corporate Tax Installment

November

30 • Corporate Tax Installment

December

15 • Personal Tax Installment
31 • Corporate Tax Installment

Chapter 3: Accounting and Bookkeeping

The necessity for good, well-organized financial records cannot be overemphasized. One of the greatest mistakes made by owners of small businesses is keeping poor financial records and making improper or poor business decisions based on inadequate information.

The business' accounting records and financial statements represent a score sheet that tells how the business is progressing, as well as an early warning system that lets you know when and why the business may be going amiss. Financial statements and the underlying records provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxation authorities and other governing bodies.

Accounting Systems

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper).

Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions should be answered for government or other regulatory authorities?

As your business grows, working closely with your accountant will ensure that your accounting system is providing you with the necessary information.

Topics of Discussion in this Chapter:

- Accounting Systems
- Chart of Accounts
- Cash or Accrual Accounting
- Accounting Records and Record Keeping
- Accounting Software
- Internal Control

Chart of Accounts

The basic road map into any accounting system is the *chart of accounts*. It is this chart that helps establish how information will be captured by your accounting system and what information will be subsequently readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business change.

To help establish a good working chart of accounts, you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you.

Some of these considerations might be:

1. Will your business have inventory to account for? If so, will it be purchased in final form or will there be production costs?
2. Are capital assets a significant portion of your business?
3. Will you sell only one product or service or will there be several types of services or products?
4. Will you have accounts receivable from customers which you will have to track?
5. Are you going to operate in only one location or will you do business in several cities or provinces?
6. Are the products you sell subject to sales tax?
7. Do you need to track costs by department product?
8. What type of government controls or regulatory reporting are you subject to?

Each answer will have an impact on how the chart of accounts is structured. When starting a business, developing a chart of accounts may have a low priority; however the amount of time and money a well organized accounting system will save can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this chapter.

Cash or Accrual Accounting

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The *cash basis of accounting* has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in the bank at the end of the month is how much you made.

Unfortunately, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them. *Accrual basis of accounting* is reporting income when it is earned and expenses when they are incurred.

Most users of financial statements such as bankers and investors are used to accrual basis statements and expect to see them. It is also required by *Generally Accepted Accounting Principles (GAAP)* to report using the accrual basis of accounting. Once you become familiar with them, they provide a much better measuring device for your business operations as compared to cash basis statements. Whether you use the cash or accrual basis, it is possible to update the records for income tax purposes to ensure compliance with the rules and minimize taxes. Your accountant can advise you on the advantages and feasibility of doing this in your particular circumstances.

Accounting Records and Record-keeping

Another question which the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time *bookkeeper*, will you have a bookkeeper that comes in periodically or will the volume of activity be such that a full-time bookkeeper will be required. Another alternative is to engage an accounting firm to carry out the monthly bookkeeping functions on a regular basis.

Very often the owners of a business decide to maintain the accounting records themselves and underestimate the commitment they have made to other phases of the operation. As a consequence, the record-keeping is often low priority and owners find themselves continuously catching up. This approach, though rarely planned, can require a substantial expenditure of time and money. It is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise. This can be achieved by maintaining close control over the cheque-signing function with careful review of cash accounts and accounts payable records. Your business' accounting firm can help develop a good program of record-keeping duties for you, your employees and any outside bookkeepers or accountants you may engage.

Accounting Software

If your business includes any of the following then the use of accounting software would be a useful tool in your business.

- Many repetitive or routine tasks
- Multiple transactions; i.e. payroll cheques, invoices, puchase orders, mailing labels

Your accountant will be able to assist you in the selection of an appropriate accounting software package as well as help in the installation, training and support of the software.

There are a number of very good, easy to use accounting software systems, which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. For this reason, the computer also causes more headaches for the owners of modern businesses than any other single item. If you want to use a computer-based accounting package either in your own business, with a service bureau or through your accountant, it is imperative that you provide accurate information to be entered into the system.

The real value of the computer becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he/she was trained, not as a "number cruncher", but as your business advisor, consultant, and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analyzing your business to make it more profitable.

Internal Control

Internal Control is the system of checks and balances within a business enterprise, which helps to ensure that the business' assets are properly safeguarded and that the financial information produced by the business records is accurate and reliable. When you are operating as a "one-owner shop" or at least handling all of the business' financial transactions, maintaining good internal accounting control can be relatively straight forward.

However, when your business grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "yes" to the following questions:

- When my business provides goods or services to our customers, am I sure that the sale is recorded and the revenue is recorded in accounts receivable or the cash is collected?
- When cash is expended by my business, am I sure we received the goods or services?

Methods used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping stones to maintaining good control in your business.

The solution in your particular instance may be as simple as numbering the sales invoices and being sure all invoices are accounted for or reviewing all bills and timecards before company cheques are issued. These are fundamentals in a well-run business. As the business grows, you will need to consider concepts such as segregation of authority as well as employee access and function controls.

No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard-earned assets as a priority from the outset.

Illustrative Chart of Accounts.

Balance Sheet

Current Assets:

1100 Bank
1110 Petty Cash
1120 Temporary Investments
1130 Accounts Receivable
1139 Allowance for Doubtful Accounts
1140 Notes Receivable
1150 Interest Receivable
1160 GST/HST Receivable
1170 Inventory
1190 Prepaid Rent
1191 Prepaid Insurance
1192 Other Prepaid Expenses

Long-Term Investments:

1210 Land
1220 Investments

Property, Plant and Equipment:

1300 Land (if used for operations)
1310 Buildings
1325 Accumulated Amortization Buildings
1340 Equipment
1345 Accumulated Amortization Equipment
1350 Automotive
1355 Accumulated Amortization Automotive

Intangible Assets:

1410 Patents
1420 Goodwill
1430 Organizational Cost

Current Liabilities:

2130 Accounts Payable
2150 Interest Payable
2155 Salaries Payable
2160 Employee Deductions and Withholdings Payable
2161 Income Taxes Payable
2162 GST/HST Payable
2170 Rents Received in Advance

Long-Term Liabilities:

2410 Mortgage Payable

Shareholder's Equity:

3510 Capital Stock
3610 Dividends
3650 Retained Earnings

Income Statement

Current Assets:

4010 Sales

Cost of Sales and Related Accounts:

5010 Purchases
5020 Purchase Returns and Allowances
5030 Purchase Discounts
5100 Transportation In

Operating Expenses:

6010 Rent
6020 Advertising
6030 Amortization
6040 Delivery
6050 Salesperson's Commissions
6060 Miscellaneous Selling Expenses
6500 Office
6510 Taxes, Other than Income and Payroll
6550 Bad Debts
6555 Salaries and Wages
6585 Employee Benefits
6590 Management Salaries
6600 Insurance

Other Revenue:

7010 Miscellaneous Revenue
7050 Interest Revenue

Other Expenses:

7150 Interest and bank charges
7155 Interest on long-term debt

Income Tax:

8160 Income Taxes - Federal
8165 Income Taxes - Provincial
8170 Provincial Capital Tax

Chapter 4: Payroll Taxes

Regardless of the form of business in which you operate, if you are going to have employees, you will have to contend with payroll taxes. The brief summary which follows will give you some guidance in the rules and regulations of the various taxing authorities.

This guide will deal primarily with the Federal, Ontario, and Québec provincial reporting requirements. The federal requirements are generally the same from province to province, however, each separate province will have its own rules and regulations.

Topics of Discussion in this Chapter:

- CRA Payroll Deductions
- Timing of Remittances
- Director's Liability
- Determining Payroll Withholding Amounts
- Annual Reporting
- WSIB
- Employer Health Taxes

CRA Payroll Deductions

Each year the CRA produces an "Employer's Guide to Payroll Deductions". This guide is available from any CRA District Taxation Office and provides all the rules and regulations of payroll withholdings and remittances that you must adhere to. The guide should be used in conjunction with the current edition of the Payroll Deduction Tables which is also available from any district office or from the CRA website at www.cra-arc.gc.ca/tax/business/topics/payroll/menu-e.html. These tables are usually incorporated with accounting software programs and typically updates are available to registered owners of the software.

The CRA administers the collection of federal and provincial payroll withholding taxes in all provinces but Québec. Québec has its own system of payroll tax withholding and collection. As a result, it will be necessary for all employers operating in Québec to register both federally and provincially with the Québec authorities (see page 2-3).

With respect to payroll withholding, each employer is required to withhold Canada Pension Plan (CPP) contributions (or Quebec Pension Plan, if in Quebec), Employment Insurance (EI) Premiums and Personal Income Taxes. After factoring in the additional employer portion of the first two items, the total is to be remitted to the Receiver General on a periodic basis. The frequency of these payments will depend on the level of monthly withholding.

Timing of Remittances

Payroll deductions must be received on or before the 15th day of the month following the month in which the remuneration was paid, except, as noted in the following section for accelerated remitters.

Your payments must be received by a district taxation office, a taxation centre, or Canadian financial institution by the required due date.

An accelerated remitter is determined based on the average monthly withholding amount for its second preceding calendar year. In order to arrive at this amount, determine the total amount remitted for the second preceding year and divide this amount by the number of payments made (generally 12). If this amount is greater than or equal to $15,000, then more frequent remittances of deductions are required. Certain small employers have the ability to remit source deductions on a quarterly basis. For precise details see CRA website address: www.cra-arc.gc.ca/tax/business/topics/payroll/menu-e.html

Penalties and/or interest will be charged on late and/or deficient payments. Furthermore, if you fail to deduct and remit the correct income tax, CPP and EI amounts you may be liable for the full amount, which should have been deducted and remitted.

Directors' Liability

If a corporation fails to deduct, withhold or remit the appropriate amount of tax, the directors of a corporation may become jointly and severally liable to pay the amounts due.

A director can be absolved of this obligation where he has taken positive action to ensure that the corporation is meeting its statutory requirements and has in place the necessary internal controls to continue to meet its requirements. Each director should consult with legal counsel to determine what level of care is expected of them in these situations.

Determining Payroll Withholding Amounts

The level of CPP and EI premiums to be withheld from an employee's wage will depend on the level of earnings, the number of pay periods in the calendar year, and the amount of previously reported earnings for the year. The procedures and amounts are clearly set out in the Employer's Guide to Payroll Deductions and the accompanying Payroll Deduction Tables. The employer is also required to pay its share of these two programs. With respect to CPP the employer must match dollar for dollar the amount of CPP withheld from the employee. For EI purposes the employer must contribute 1.4 times the amount withheld from the employee. Self-employed individuals are required to remit both the employer and employee share of CPP, which is based on the net earnings of the business. Self-employed individuals are not required to remit EI premiums for their own earnings from the business.

The amount of income tax to be withheld is dependent on the employee's level of earnings and the number of pay periods. However, it is also dependent on the employee's available tax credits. For this reason it is essential that each employee completes an annual TD1 form (Personal Tax Credits Return) which summarizes his/her statutory credits for the year. Based on his/her level of credits, the employee is classified for withholding tax purposes and the appropriate amount can be calculated. If the employee fails to complete the TD1 the employer is required to withhold at the highest levels.

Annual Reporting

Each year every employer is required to summarize its payroll activities for the year by employee and in total. This summary sets out the relevant items for each employer such as total wages, CPP, EI and income taxes withheld. A copy of the individual summaries is provided to each employee as a "T4" (Statement of Remuneration Paid) to be used in the preparation of the individual's personal tax return. Copies of these forms are also furnished to CRA along with a T4 Summary which sets out the annual amounts for the employer. The T4 summary and related T4 supplementary slips must be filed on or before the last day of February of each year.

Workplace Safety and Insurance Board

Each employer should determine if he/she is required to register with the Workplace Safety and Insurance Board (Commission de La Santé et de la Sécurité du Travail Québec - See Page 2-3). If registration is required, the employer will be charged an annual assessment based on the industry in which it operates. (Ontario www.wsib.on.ca; Quebec www.csst.qc.ca)

Employer Health Taxes

Both Ontario and Québec impose an employer health tax. The information necessary for registration is found in Chapter two of this publication. Basically, the employer is charged a tax based on the level of its payroll. This tax is collected by the provinces and must be verified with the filing of an annual return. Ontario provides an exemption on the first $400,000 of wages.

Chapter 5: Selecting a Year End

The selection of a year end involves several considerations. The most important determinant, from a reporting perspective, is the ease by which data is accumulated. For this purpose, most companies prefer to use a quarter end as the last day of the fiscal year (e.g. March 31, June 30, September 30, or December 31). Many businesses not using a quarter end date find that it complicates several government filings and can be confusing to shareholders and others when disclosing quarterly information.

Topics of Discussion in this Chapter:

- Which Month to Choose
- Corporations
- Proprietorship/Partnership
- Formally Selecting a Year End
- Changing the Year End

A second consideration involves the nature and seasonal fluctuations of the business. As a general rule, the year end causes a disruption to the normal course of business, especially if a physical inventory count is required. It is usually better to have this disruption occur when business is slower. Also, since the periods just before and just after year end often involve an additional time commitment by the key officers, a year end that does not conflict with normal vacation schedules is preferable. While the selection of a calendar year end is common, for various reasons it may not be the most advantageous.

Corporations

If your new business is set up as a corporation, the year end selected can have a significant income tax impact during the start-up phase. By appropriately analyzing the first period of operation, the selection of a particular fiscal year end can result in a deferral of the first tax payment (due 2 or 3 months after the year end) and the requirement to pay monthly corporate tax installments (see Chapter Six) in the second year of operation. This deferral of tax payments can produce a significant cash flow advantage in the start-up phase. You should review your plans with your accountant to determine how to take advantage of this strategy.

A corporation can generally claim a deduction for salaries or bonuses which it accrues as payable to its shareholders/managers. However, to be deductible for tax purposes these amounts must be paid within 179 days of the year end of the corporation. The recipient is only required to include the amount in income when received. Therefore, if the corporation's year end is within 179 days of January 1 of the next year, then the individual has the flexibility to determine in which calendar year he declares the income.

The first operating period of a corporation may not exceed twelve months. If a fiscal year end is selected such that the first period is less than twelve months, certain adjustments to various income and tax calculations are required.

Proprietorship/Partnership

The income or loss of an unincorporated business (proprietorship or partnership) must generally be reported for income tax purposes on the basis of a calendar year end.

A non-calendar fiscal period may still be used for non-tax reasons. If a non-calendar year is chosen for non tax reasons, there is a requirement to perform tax-related adjustments to the income reported for the fiscal year to arbitrarily result in a pseudo-calendar year reporting for tax purposes. Due to the complexity of these rules, the impact of selecting a non-calendar year end for an unincorporated business should be thoroughly analyzed and discussed with your accounting advisor.

It should be noted that a co-tenancy, which is a common entity for holding real estate, must report on a calendar year basis. The co-tenants would report their respective share of the income or loss in their fiscal period in which the calendar year ends.

Formally Selecting a Year End

The selection of a year end is made on the first tax return of the business. There is not a separate form for making the selection. Depending on the form of the business, the fiscal year end will be reported on the first tax return filed. For instance, a corporation will report its year end on the Federal T2 Tax Return. A proprietor will indicate the year end of his/her business on the statement of business income included with his/her T1 Personal Return. The fiscal year of a corporation cannot be longer than fifty-three weeks. The fiscal year of an unincorporated business cannot exceed 12 months.

Changing the Year End

Once a year end is selected it can only be changed if permission is obtained from CRA. In considering a request for change of year-end, CRA will look closely at the business or economic reasons for the change. The absence of a tax avoidance motive is generally a requirement.

Certain events may also trigger a fiscal year end. Most notably, a change in controlling ownership of the business will trigger a fiscal year end on the day in which the controlling ownership of a company is transferred.

Chapter 6: Income Tax

Topics of Discussion in this Chapter:

- Income Tax Compliance
- Installment Payments of Tax
- Due Dates
- Tax Planning
- Provincial Taxes
- Conclusion

Eventually you will have to deal with income tax. The income tax laws are extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, however it provides some guidance on complying with the laws. A qualified tax professional should be consulted when dealing with income taxes. Income taxes have a potentially significant impact on the cash flow of your business.

Income tax laws are quite complicated. The cost of professional advice, which you may save by attempting to tackle your own taxes, particularly as they relate to a business, can be greatly overshadowed by the expense you may incur if you make a mistake. This axiom takes on greater significance when the return is for a corporation. However, a far greater consideration than potential mistakes is missing tax saving opportunities which may be available to you and your business.

Income Tax Compliance

Each type of legal entity is required to file a different type of income tax form.

Corporations:

A corporation is considered a taxable entity and is required to file a Federal Form T2 and/or Québec C17. The federal forms, including CRA's instruction guide, are available from any District Taxation office. Provincial forms can be obtained from the Ontario Ministry of Revenue (1-800-263-7965 or www.trd.fin.gov.on.ca) or Revenu Québec (1-800-267-6299 or www.revenu.gouv.qc.ca/fr/ministere.indey.asp).

Partnerships:

A partnership is not a taxable entity. It is treated as a conduit through which taxable income is passed to the partners for inclusion in their respective tax returns. The partnership may be required to file Federal Form T5013. No tax is due with this form, however, included with the forms is a schedule which lists the various items of income and credits to be included on the individual/corporate partner's return.

Sole Proprietorship:

A sole proprietorship is considered to be a component of the individual's personal tax situation. The tax form required is either a statement of Business Income - T2124, or of Professional Income - T2032, which is included with the owner's personal T1 income tax return. There are no separate provincial returns to be filed other than in the province of

Québec which has its own personal reporting requirements.

Installment Payments of Tax

Corporate income tax installments must be made monthly; federally and provincially. The amount of the monthly installment depends on the level of tax paid by the company in the previous two years and the estimated taxes of the current year. If the required installments are below certain thresholds, there may be a possibility of paying in quarterly installments.

Personal tax installments must be made quarterly. These payments are dependent on the taxes payable by the individual for the previous two years as well as the estimated taxes for the current year. Another factor to be considered for an individual is the amount of tax which may have been withheld from the individual's employment income.

Due Dates

The due dates of the various forms are:

Corporate:

Federal form T2 and/or C17 are due six months after the end of the tax year. If there is a balance of tax due, it generally must be paid within two months of the corporation’s year end. This may be extended to three months in certain circumstances.

Partnership:

Federal Form T5013 is due within five months after the end of the fiscal tax year, if all the members of the partnership are corporations. If all the members are individuals, the return is due by March 31 of the year following the calendar year in which the fiscal period ends. If the partnership has both individual and corporate partners, the due date is the earlier of these two dates.

Sole Proprietorship:

Federal Form T1 is usually due April 30th, but is extended to June 15th if the individual is reporting self-employed income. The payment of the tax balance owing on the T1 return is required to be paid by April 30th, regardless of the T1 filing due date.

Tax Planning

Proper tax planning is essential in order to make the most of the income tax laws. You should develop a relationship with a qualified professional who has experience with the taxation of your type of business. Tax planning is not a one-time event right before the return is due. Tax planning is a year-round endeavor requiring communication on both sides - you and your tax advisor. Proper planning ensures that there are no surprises when the return is filed.

There are a number of common areas that new business owners should be aware of when reviewing their tax strategy. Areas that should be considered include:

- Business use of vehicles
- Professional fees and dues
- Business use of home office
- Interest charges
- Promotional expenses
- Entertainment expenses
- Management/Administration fees (etc.)
- Capital cost allowance on capital assets

Provincial Taxes

If your company will be doing business in more than one province it is essential that you familiarize yourself with the tax laws and filing requirements of those provinces. Each province has different rules and regulations that must be adhered to.

Forms and Publications.

Federal: www.cra-arc.gc.ca/formspubs/menu-e.html
Ontario: www.trd.fin.gov.on.ca
Quebec: www.revenu.gouv.qc.ca/eng/pub_form/index.asp

Chapter 7: Commodity Taxes / HST

New businesses involved in the provision of goods or services are required to register for the collection of various commodity taxes. This chapter examines the obligations of a new business under the Federal Goods and Services Tax/ Harmonized Sales Tax, the Ontario Retail Sales Tax and the Québec Sales Tax.

Topics of Discussion in this Chapter:

- GST & HST
- Registration
- Input Tax Credits
- Periodic Filing
- Simplified Accounting Methods
- Ontario Retail Sales Tax
- Quebec Sales Taxes
- Other Provinces

Goods and Services Tax/Harmonized Sales Tax (GST/ HST)

The Goods and Services Tax/Harmonized Sales Tax (GST/ HST) is a multi-stage tax that applies to most transactions throughout the production and distribution process. The majority of goods and services sold or provided in Canada are taxable under the GST at a rate of 5%.

The provinces of Ontario, British Columbia, New Brunswick, Nova Scotia and Newfoundland have harmonized their provincial sales tax with the GST and now collect HST at a rate that ranges between 12% and 15% (including the 5% GST) depending on the province on supplies produced or sold within their borders. HST is reported on the regular GST/HST form and no additional registration is required.

The following is a list of applicable GST/HST rates:

*Nova Scotia	HST	15%
Ontario, New Brunswick, Newfoundland	HST	13%
**British Columbia	HST	12%
Quebec, ***PEI ,Manitoba, Saskatchewan, Alberta, Yukon, NWT. Nunavut	GST	5%

*Please note that Nova Scotia has announced a decrease in the HST rate to 14% in 2014 and 13% in 2015.

**Please note British Columbia is scheduled to revert back to a GST/PST regime effective April 1, 2013.

***PEI has announced it will introduce HST at a rate of 14% effective April 1, 2013.

Certain items, such as sales of basic groceries and prescription drugs as well as exports from Canada are also taxable, but at a rate of 0%. These are referred to as zero-rated goods and services. A limited number of goods and services are exempt from the GST/HST.

Examples of exempt goods and services include:

- residential rents;
- the sale of "used" housing;
- financial services and insurance;
- medical, dental and other health care services;
- educational services;
- many supplies by charities, not-for-profit organizations;

- municipal services.

Registration

As a new business, determining the tax status of your revenues will allow you to clarify whether registration under the GST/HST/QST is necessary. Any business which makes annual taxable (including zero-rated) sales of greater than $30,000 must register for GST/HST purposes and collect and remit tax on all taxable sales. Businesses which have only tax-exempt revenues are not permitted to register for GST/HST purposes. To register, unless your business is in the province of Québec, complete form RC1(E) and mail or fax it to CRA. If your business is in the province of Québec, contact Revenu Québec to register for GST/HST. You can also register online at www.cra-arc.gc.ca/tx/bsnss/tpcs/bn-ne/bro-ide/menu-eng.html.While most businesses will be required to register under the GST/HST, those businesses with worldwide annual taxable revenues of $30,000 or less (known as "small suppliers"), are not required to register but may do so on a voluntary basis.

Input Tax Credits

The main advantage of becoming a GST/HST registrant is that the business becomes eligible to claim Input Tax Credits (ITC's). ITC's are essentially refunds of GST/HST paid on most business expenditures, including purchases for resale, capital purchases and most operating costs.

Periodic Filing

Businesses with between $1,500,000 and $6,000,000 in annual revenues will be required to file a GST/HST return for each fiscal quarter. Quarterly returns are due by the end of the month following the quarter along with any net tax to be remitted (net = GST collected less Input Tax Credits). Businesses with annual revenues of less than $1,500,000 will be assigned an annual filing frequency but may have to make quarterly installments.

Annual returns are due by the end of the 3rd month following their reporting period. It is possible that any given return will report a net tax refund if GST/HSTpaid on purchases exceeds GST/HST collected. Registrants can expect to receive the refund cheque within 30 days of the return's due date or interest will be paid on the outstanding balance.

Businesses with over $6,000,000 in annual taxable revenues will be required to file on a monthly basis, and the return is due by the end of the month following the month it pertains to.

Electronic Filing

Businesses with annual taxable revenues in excess of $1,500,000 are required to file their GST/HST returns in electronic format. These businesses are automatically provided with a web access code which enables them to complete their returns over the world wide web. The option to complete the return by telephone is also available to qualifying registrants. Registered charities are exempted from the electronic filing requirement.

Simplified Accounting Methods

In an attempt to minimize the bookkeeping costs associated with the GST/HST, the Federal government has introduced a number of initiatives to help small businesses. One of these methods, known as the "Quick Method of Accounting" is available to some businesses with less than *$100,000 (GST/HST included) in annual taxable revenues. Registrants electing to use the Quick Method remit GST/HST at a reduced percentage but are not eligible to claim ITC's on any purchases other than capital assets. Other simplification methods, including the simplified ITC claim method, are available and should be examined by any new business. Review your business circumstances with your accountant.

*The government has proposed to increase this limit to $400,000.

Ontario Retail Sales Tax

Ontario Retail Sales Tax was eliminated on June 30, 2010 for all goods and services with the exception of insurance premiums and private sale of used vehicles.

Quebec Sales Tax

The Quebec Sales Tax (QST) operates similarly to the federal GST/HST. Businesses that must register for the QST include:

- any business with a permanent establishment in Quebec;
- any business without a permanent establishment in Quebec but which carries on a business in Quebec; and
- any business which supplies goods in Quebec to consumers, even if the business is not located in Quebec.

The QST base is similar to that of the federal GST/HST. Supplies which are tax-exempt for GST/HST purposes are generally tax-exempt for QST purposes. Similar to the GST/HST, refunds are available in respect of QST paid on business inputs, such refunds are known as Input Tax Refunds (ITR's).

For businesses located in Quebec, a combined GST/QST return can be made with both taxes being remitted to the Quebec Minister of Revenu. Most Quebec businesses who register for the GST will automatically be registered for the QST. Businesses based in another province should consult the Quebec Ministry of Revenue, 170, rue de l'Hôtel-de-ville, 6é etage, Gatineau, Quebec, J8X 4C2, (800) 567-4692 to determine their registration requirements.

Other Provinces

The provinces of PEI, Saskatchewan and Manitoba impose a traditional retail sales tax. If you plan to do business in any of these provinces, you should first determine your responsibilities under the province's sales tax act. As a general rule, a business must register for provincial sales tax purposes in any of the above-mentioned Canadian provinces in which it carries on a business or has a permanent establishment from which sales are made. Alberta, Nunavut, Northwest Territories, and the Yukon do not have provincial or territorial sales taxes.

Chapter 8: Cash Flow Planning and Forecasting

The decisive factor for a successful business is the ability to collect cash, pay bills as well as pay its employees and its owners in a timely manner. Often, small businesses are profitable but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business.

Topics of Discussion in this Chapter:

- Starting the Analysis
- Cash Collections
- Disbursements
- Cash Flow Projections

Forecasting cash resources and the uses is learned through valuable experience and is by no means a well-defined science. The more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

Starting the Analysis

One of the most significant factors in determining your cash flow forecast is the volume of sales which will be generated in the next several months and for the rest of the period which you intend to forecast. The sales forecast must be realistic and attainable. A sales forecast needs to be based upon specific facts. These facts may be based on your sales history, the history of similar businesses you have owned or operated, or that of your competition.

Some of the questions which should be addressed when completing the sales forecast include: what factors can you control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota. In preparing a forecast, you must take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

The ability to forecast in the short term is much greater than the ability to forecast in the long-term. The amount of detail which must be included in the cash forecast is really a matter of preference. It can be based on per-unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month for your type of business in its current environment.

Cash Collections

Once you have determined a reasonable level of sales and are comfortable with the revenue forecast, you must address questions such as: what percentage of my sales are received in cash, what portion are credit sales for which I will have to carry accounts receivable? For those that are receivable based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or Mastercard take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of receivables you must determine what portion of the receivables will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collection of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Disbursements

If your business includes the sale of inventory, you will have to purchase the merchandise from suppliers, or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first dollar of sales is generated and received.

You should consider how often and in what amount your employees must be paid and when their payroll taxes must be remitted.

Additionally, you need to know the credit trade terms your vendors are willing to advance to you. Do you have to pay for inventory items on a C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable inventory? If your production requires utilities to run your machines or if supplies are required, such as dispensable chemicals or packing materials, and these must be purchased prior to the sale of the inventory, you should factor in the timing of these payments.

In addition to the cost of manufacturing, you should consider whether productive capacity will allow you to generate enough inventory to support the level of sales which you are predicting. If the volume of sales you forecast is above and beyond your ability to produce today, what changes in your operating environment must be made to meet the production levels? Will you need additional employees and, if so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it will be due. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will be one-time expenses. These expenses include attorney fees for drafting partnership agreements or incorporating your business, the cost to obtain business licenses, setting up an accounting system, stationery costs, and costs of signage or logos etc.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. There may be a variety of financing alternatives which are available to you. Most of the start-up costs which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analyzed and factored into your cash flow analysis. A good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. You, as the owner and operator of the business, are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections, the more accurate they will tend to be. This exercise may also help you to pin-point areas of potential cash savings which you had not otherwise considered.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavor. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

WelchGroup Consulting has resources to assist you with cash flow planning and forecasting. For more information, please visit www.w-group.com.

Exhibit 8.1

CASH FLOW PROJECTIONS

	Month 1	**Month 2**	**Month 3**	**Month 4**
Cash Receipts				
Sales	xx	xx	xx	x
Anticipated Collections		xx	xx	xxx
Miscellaneous Income	x	x	x	x
Cash Receipts	x	xx	xx	xxx
Cash Disbursements				
Cost of Sales				
Occupancy Costs				
Advertising				
Salaries and Wages				
Taxes - Business				
Financing Costs				
Employee Benefits				
Office Expenses				
Insurance				
	xxx	xxx	xxx	xxx
Start up Costs	xx	x	x	x
Cash Disbursements	xxx	xxx	xxx	xxx
Net Cash Flow	(xx)	(xx)	(xx)	x
Opening Cash Balance	xxxx	xx	xx	xx
Closing Cash Balance	xx	xx	xx	x

Chapter 9: Obtaining Credit and Financing Your Business

At some point, you may have to obtain capital for the initial expenses prior to opening your business or for the expansion or increased working capital requirements of your ongoing business.

Business financing can take two forms, debt or equity. Debt means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admission of a partner or, in the case of a corporation, issuing additional shares, options or warrants to investors.

Topics of Discussion in this Chapter:

- How Do I Get The Money
- Your Business Plan
- Financing Alternatives
- Debt Financing Sources
- Equity Financing Sources
- Government Incentives
- Outline of a Business Plan

How Do I Get the Money

There are several questions that must be answered during the course of raising money for your business. In raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

1. How much cash will you need?

Detailed cash planning, requiring estimates of future sales, the related costs, and how quickly you must pay your creditors will have to be determined. You will also have to factor into your planning some assumptions about when you will generate enough cash to pay the money back. If you raise cash through equity sources you may not need to pay it back, but your investors may want to know how the value of the business will grow and how they will benefit, through dividends or by a future sale of their shares.

2. What will you do with the money?

A potential investor is going to want to know how the investment will be spent. Will it be used for equipment, to hire additional employees, or perhaps for research and development for a new product. Part of the answer to your investors on how you will spend the money is a detailed understanding of how it will benefit the company.

3. What experience do you have in running your business? One of the primary reasons for business failure is lack of experience and management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

4. What is the business climate for your type of business and your geographic location? Few investors will want to put money into your business if you have not done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions which are subject to change in the near future, your risk is substantially increased.

Even if your business has great potential, if the local economy is sluggish to the point that it cannot support your venture, you need to be aware of this before moving ahead.

Your Business Plan

A good business plan is perhaps your most important tool at the outset of the new business. Most of the information required to respond to investor's questions is included in your business plan. A business plan is a written report providing a summary of what you plan on accomplishing with your business and how and when you intend to meet your goals and objectives. A business plan provides evidence to a potential lender of your commitment to your business and is a way the lender can judge the viability of the business and its future ability to pay its liabilities.

Your business plan should include a financing plan. This would include quantitative elements such as a cash flow budget, budgeted income statements, investment budgets and forecasted balance sheets. There are also qualitative elements a financier will want to look for such as a marketing plan, a management plan and a production or operating plan. The business plan explains all the strategies necessary to take your business from its current situation to fulfill your objectives for the business.

WelchGroup Consulting has the resources to assist you in every stage of the preparation of your business plan and to help tailor these different elements to your particular situation. A suggested outline of a business plan is included at the end of this Chapter.

Financing Alternatives

Once you have developed the business plan, you can begin the search for financing. One of the first steps is to determine whether to raise funds through debt or equity. There are positive and negative aspects to each type of capital. The cost to your company of each type of funding is different as is the way in which they are treated for income tax purposes.

The interest on borrowed money is deductible by a business for income tax purposes, which reduces the effective cost to your company. Dividends, which you might pay on the same investment in shares, would typically not be tax deductible by your company. In selling shares, there usually is no firm commitment by your company to pay the money back, but your shareholders will generally want to participate in the management of your company.

When you have made the decision as to the type of financing you think is appropriate to fit your needs and desires, it is probably a good idea to consult with your accountant as to the alternative sources of debt and/or equity financing available.

Whether you determine that debt or equity financing or a combination of both, is the best choice for your company, there are a number of alternative types of financing available.

Debt Financing Sources

1. Banks. The first source of funds which typically comes to mind when borrowing money is a bank. Banks typically lend to small businesses on a secured basis using equipment, inventory or accounts receivable. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be to a banker. Loans from a bank may take several forms such as:

- A line of credit which is generally reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.
- A short term demand note which is payable in full on a specified date.
- A term loan for the purchase of a specific asset - such as a computer or a machine.

As your relationship with your banker becomes better and your business becomes established, you may consider a long-term (3 to

5 years) loan which will be payable in monthly installments.

2. Lease financing. In today's business environment, it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed-upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases often run for a period of three to five years, and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

3. Trade credit. A very important source of financing for your company may be from the vendors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, will want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instances before you pay for them. The trade credit you build today will be relied upon by other vendors as you attempt to establish yourself with them in the future. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from, and the industry you are in.

Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of common or preferred stock or stock warrants. Equity sales are usually carefully tailored to meet the needs of both the company and the investor. An equity issue or sale, refers to a sale of shares from the company treasury. Any sale by a current shareholder could result in income tax consequences.

1. Venture capital companies. A venture capital company or fund is typically in the business of taking risks. A venture capital fund is often backed by a group of investors which may be individuals or corporations. The investors are often represented by a management group which evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require. A venture firm sometimes requires a 300 to 500 percentage return on its investment. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail completely. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what you must receive at the time your investment will be sold to allow him/her to achieve the rate of return he/she deems necessary.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. A venture capital investor becomes a member of your team.

2. Private individuals. Very often, individuals who are successful in their own business endeavors and have accumulated substantial wealth, may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your business. The business acumen and contacts of these individuals can often be a valuable asset. An individual investor can often react to opportunity much more quickly than a venture capital firm and typically has only his/her own interests to serve as opposed to a financial backer or group of limited partners. Individual investors can be more flexible in the type of investment structure they can deal with, and often have personal, financial and tax motivations to consider.

Government Incentives

There are a number of federal and provincial small business programs that provide financial, managerial and transitional support to industry. Depending on your geographic location and your specific industry, you may be able to take advantage of these programs. The large number of these programs makes it impossible to mention them all here. However, a representative of Welch LLP would be happy to review your particular circumstances with a view to determining which form of assistance, if any, may be available to your new business.

OUTLINE OF A BUSINESS PLAN

1. EXECUTIVE SUMMARY

A) Business description
- · name
- · product or service
- · market and competition
- · management expertise
- · location
- · related business history

B) Business objectives - both short and long term

C) Summary of anticipated financial needs

D) Summary of earnings projections

2. MARKET ANALYSIS AND STRATEGY

A) Description of market

B) Industry trends (past, present, and future)

C) Analysis of competition

D) Your marketing advantage / niche

E) Sales projections

F) Pricing policies

G) Distribution plans

H) Marketing strategies

L) Promotion and advertising strategies

3. PRODUCTS OR SERVICES

A) Description of products and/or services

B) Proprietary position: patents, copyrights, trade secrets and legal and technical considerations, if any

C) Technologies used

D) Comparison to competitors' products

4. MANAGEMENT

A) Form of business organization

B) Board of Directors (if corporation)

C) Organization chart

D) List of owners/shareholders, addresses and percentage ownership

E) Résumés of key personnel

5. FINANCIAL DATA

A) Five-year financial projections with explanations (first year by quarters; remaining years annually):
- · first three months' financial needs
- · capital expenditure estimates
- · profit-and-loss statements
- · balance sheets
- · cash flow charts
- · break-even charts

B) Explanation of projections

C) Key business ratios

D) Potential return to investors

6. LAND, BUILDINGS AND EQUIPMENT

A) Description of location

B) Details of land requirements, site plans, costs of land and buildings, including installation of services

C) Description of any lease terms and costs

D) Description of machinery and equipment

7. SUMMARY AND ANALYSIS OF MAJOR RISKS & SIGNIFICANT OPPORTUNITIES

8. REFERENCES

A) Identification of banks and other banking particulars

B) Name and particulars of accounting, tax, legal, consulting and other professional advisors

9. APPENDICES (Not all these items will be applicable, necessary or available)

A) Personal financial net worth statement

B) Detailed management biographies

C) List of assets

D) Products or service literature, brochures, etc.

E) Letters of reference

F) Patents, copyrights and trademarks documentation

G) Major contracts

H) Lease documentation

I) Market research, engineering or other studies

J) Recent accountant's financial reports (if applicable)

K) Details of insurance coverage

L) Copies of advertising promotional material

For more information, please contact Candace Enman, COO of WelchGroup at 613-236-9191 ext. 195 or visit www.w-group.com.

Chapter 10: Insurance

Sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your business.

The types and amounts of coverage purchased must be evaluated on a cost-benefit basis like any other commodity. Your accountant and insurance agent can help you review the amount of coverage to purchase for various purposes. Insuring against risks which can have a significant detrimental impact on your business is critical. This normally would include such items as fire, storm damage, theft, general and product liability.

Depending on the nature and size of your business, it is often a good planning strategy to self-insure for all or a portion of certain losses. Self insurance can be accomplished by not buying coverage for incidental risks or increasing the deductible on policies which you do buy. Raising the deductible amount can have a very favourable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high, consequently the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizable deductible amount.

Select an insurance representative who is knowledgeable in the commercial field, your business sector and who will secure, on your behalf, a number of quotations from various insurance companies.

Required Policies

The terms of a building/office lease or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If the business has leased equipment or borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies which you may wish to consider. The specific coverage provided by each and the related costs can be explained in depth by a qualified insurance broker.

If you own the building and carry a mortgage you will be required to insure the structure to at least the amount borrowed. However, it is often prudent to secure 100% replacement cost coverage. If you are renting the premises, it will usually be a requirement of the lease to carry tenant's fire/legal liability insurance which can be added to a general policy.

Topics of Discussion in this Chapter:

- Business Interruption
- Optional Coverage
- Accounts Receivable
- Valuable Papers
- Employee Fidelity Bond
- Umbrella Coverage
- Life Insurance

It is strongly recommended that general liability coverage be secured at limits of no less than $1,000,000 for each possible occurrence.

Some of the types of insurance coverage which you might consider for your business are listed below:

1. Business Interruption. This coverage covers the loss of revenues your business would generate if you were forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shut-down of operations.

2. Optional Coverage. Extra expenses - this is a form of business interruption insurance which will enable you to secure other premiums after an insured loss.

3. Accounts Receivable. This type of coverage insures against your being able to collect from customers due to loss or damage to the records of accounts receivable.

4. Valuable Papers. This coverage covers the cost of repairing or replacing valuable papers due to loss or damage by an insured peril.

5. Employee Fidelity Bond. This type of insurance typically covers the risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities, or similar types of assets, you may be well advised to consider this coverage. Certain industries are required to carry this insurance by various regulatory authorities.

6. Umbrella Coverage. This type of insurance covers losses above and beyond the limits of other policies which you carry. Umbrella policies usually pertain to liability of various sorts and are usually valuable if you or your business have a net worth which requires protection in the event of a catastrophic loss.

7. Life Insurance. This type of insurance is often purchased in both new and existing businesses in order to fund the buy-out of a deceased partner's/ shareholder's estate. The proceeds of the policy which flow to the company will provide the funds necessary to satisfy the estate's interest in the business without being a burden on the cash flow of the new business.

8. Keyman Insurance. This type of insurance is established on principle members of the ownership or management group in order to protect the business from the death or incapacity of the individual to continue in the business, such that their absence would have a significant negative impact on the business operation and results. Proceeds from the keyman insurance policy are set up as payable to the business.

9. Liability. This type of insurance is required to cover your business in the event of a wrongful act or omission, breach of civil or criminal statutes, failure to abide by the term of an agreement or a breach of trust by an officer or employee of the business. The types of insurance include:

- Directors and Officers Liability Insurance
- Malpractice
- Errors and Omissions
- Business Interruption (See #1)
- General Liability

Insurance is like any other product which you purchase. Before purchasing it, consult with more than one broker as to your needs for protection. Discuss insurance needs with acquaintances in the same or related business as yours. Before buying coverage, assess the reputation of the company that is underwriting the policy.

Chapter 11: Writing an Agreement

When an owner/manager first starts out, the business may look simple enough. But add a partner or a shareholder, sprinkle in a few employees, expand your customer base and find yourself needing to deal with more and more regulations and taxation rules, and all too soon you realize the need for careful documentation.

While some business agreements are sometimes founded on a handshake and a verbal agreement and sometimes letter of intent, perhaps it is time to put these agreements in writing. Formalizing the understandings between the company and its employees, suppliers or contractors with a written agreement or contract ensures the terms are clearly defined and avoids misunderstandings that could be costly. Of course, when you are drawing up any document that stipulates the terms of agreement between your company and other parties, it is important to get professional advice before finalizing the arrangement.

Here are some agreements that are commonly used in business today and may be applicable in your company dealings.

Topics of Discussion in this Chapter:

- Confidentiality Agreement
- Consulting Agreement
- Commission Sales Agreement
- Employment Agreement
- Management Agreement
- Non-Competition and Non-Disclosure Agreement
- Partnership Agreement
- Shareholders' Agreement
- Work With Professionals

Confidentiality Agreement

Whether confidentiality is addressed in a separate agreement or is included as a provision in another agreement with an employee, commission sales representative or consultant, the confidentiality agreement protects your company's interests, such as trade secrets, customer lists and other proprietary interests.

Consulting Agreement

A consulting agreement sets out matters such as the services to be provided by a consultant, the duration, and the remuneration. This agreement is important for clarifying the understandings between the company and the consultant. A properly constructed agreement can help establish that the consultant is not an employee for purposes of withholdings such as Workers' Compensation and income tax, but proper legal advice should be sought prior to finalizing terms.

Commission Sales Agreement

A commission sales agreement sets out the terms of the relationship between your business and the commission salesperson that is representing and selling your company's products or services. Elements of the agreement usually include matters such as the structure of commission and other compensation, scope of territory and whether it is on an exclusive or non-exclusive basis, provisions if the company supplies a company vehicle, and reimbursement for traveling and entertainment. A commission sales agreement will usually include provisions for non-competition as well as confidentiality to protect the company's interests. Like the consulting agreement, the properly constructed commission sales agreement can help to establish that the salesperson is not an employee for taxation and other purposes. Seek legal advice to ensure that the agreement is properly put together.

Employment Agreement

An employment agreement sets out the rights and obligations of the employee and employer, including salary and other payment structures, timing of salary increases, hours of work, arrangements for overtime and vacation time, health and benefit plans, the person to whom the employee reports and if applicable, the provision of a company vehicle. An employment agreement will often include provisions for non-competition and confidentiality to protect the employer's interest in areas such as trade secrets, customer lists and other proprietary interests. Include references in agreement addressing assignment of Intellectual Property (IP) rights developed by employee while in employment of employer, how to protect IP rights and licensing of IP.

Management Agreement

This type of contract is essential if your business needs to contract management to assist with the business. The agreement should cover such areas as the services to be provided, the manager's responsibilities, the rate of remuneration and procedures for billing and payment, and the duration of the contract. In addition, the agreement should include provisions for confidentiality and proprietary of business items and an explicit understanding that all services provided will not breach the laws, rules and regulations that govern good stewardship of the business.

Non-competition and Non-Solicitation Agreement

This agreement restricts employees, businesses, consultants or contractors who work with your business from copying or disclosing your company's processes, confidential information or trade secrets for a predetermined period or within a specific geographic area. This type of agreement lets you outsource for expertise in the development of projects without the fear of losing your investment in time and money or of having a proprietary process pirated. Non-solicitation restricts another party's ability to hire away your employees for a specified period of time or solicit your customers when they have come into contact with them while working for you. Have a lawyer prepare this agreement to ensure enforceability.

Partnership Agreement

A partnership agreement is used when two or more individuals, corporations or partnerships carry on business or trade for the purpose of making a profit. This agreement typically sets out the name of the partnership, the responsibilities of the individual partners, and provisions for the retirement, death or expulsion of partners. The agreement may also incorporate dispute mechanisms, buy/sell provisions, financing terms, repayment of capital, confidentiality, remuneration, indemnification rights and a host of other issues depending on the partners' needs and the business they are in. Drafting of a partnership agreement should be completed by a lawyer.

Shareholders' Agreement

A shareholders' agreement sets out the rights and obligations of the shareholders beyond the rights and obligations that are established by regulations and statutes of the applicable corporate legislation, depending on whether the corporation is federally or provincially incorporated. The agreement usually covers matters such as the amount of issued stock, names of shareholders and the amount and class of shares that they own. Other matters include necessary approvals by shareholders,
nominees of shareholders and buy/sell provisions as the number of directors, name of the public accounting firm, location of books and records, and the cap on the indebtedness that the incorporation can incur. As this agreement protects the interests of the shareholders, no owner-managed business with more than one shareholder should be without one.

Work with the Professionals

Formalizing the working relationship with employees, contractors, consultants, shareholders and others makes good business sense. Of course, it is not always possible to arrive at an agreement that completely satisfies all parties so negotiations maybe necessary in order to find compromises that will work.

To make sure an agreement does not disadvantage your business, you are well advised to involve your accountant and your business lawyer in the development and negotiating stages. Your accountant can assist you in determining the current and long-term consequences for your business and personal financial planning as well as ensure that you have carefully considered any tax consequence that could arise.

Before signing on the line, all parties should get independent legal and tax advice to ensure they fully understand the impact of the provisions of the agreement.

Chapter 12: Selecting Professional Advisors

Starting your own business entails a multitude of decisions; decisions which can seem overwhelming without the right players for your team. One of the most cost-effective tools you can utilize is the expertise of a specialist.

The right accountant, lawyer and banker can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

There are many factors to consider when selecting professional advisors for your business; professional qualifications, past experience with your business area, personal compatibility with you and the fee levels likely to be charged. Making these determinations at the start will ensure that a comfortable relationship will develop over time. Not seeking professional advice when you need it is poor management.

Topics of Discussion in this Chapter:

- Selecting Professional Advisors

Chapter 13: We Can Help!

Welch LLP has been synonymous with service and integrity in Eastern Ontario and Western Quebec since 1918, when George Andrew Welch first began his practice.

Welch is a full service chartered accounting firm. In addition to traditional professional auditing services, we provide expert business advice in accounting, taxation, business valuation, business development, and information systems services to a wide range of clients in the private, government and not-for-profit sectors. Across all offices the firm has a total staff in excess of 200 with over 130 professional staff in 11 offices in Eastern Ontario and Western Quebec. The Ottawa office is the largest office in the firm with a total staff of over 100 individuals.

As a highly respected bilingual firm with a longstanding heritage in the community, Welch has had a major influence in the business life in eastern Ontario. Welch is the largest Ottawa owned and operated firm in the area. The firm has also grown to where it is now the eighteenth largest public accounting firm in Canada. In a survey of Accounting Firms in Ottawa, conducted by the Ottawa Business Journal, the firm was ranked fourth overall based on the number of accountants.

The depth of our highly trained team coupled with a strong service-oriented culture offers an experience typically available only from a national firm.

Topics of Discussion in this Chapter:

- Our Practice
- Our Services
- Auditing and Accounting
- Computer Services
- Taxation
- Management Advisory
- Welch Publications

Our Services

Our partners and professional staff provide a wide variety of services to clients. In a rapidly changing world, we work hard to keep abreast of the changing financial and technological needs of our many clients. The following sets out a brief description of some of the major areas of our practice:

Auditing and Accounting

We provide audit and review services based on our client's specific needs and furnish valuable assistance in the development of financial systems tailored to provide management with timely, accurate and cost-effective information. Because we cultivate stable and long-term business relationships, our clients can look forward to working with the same team of competent professionals year after year. And because we recruit highly-skilled, highly-motivated and ambitious young people, our clients can anticipate receiving the same excellent service for years to come.

Taxation

In a taxation system that becomes more and more complex with each passing budget, our clients rely more heavily each year on our professionals for tax services. Whether the situation is simple or sophisticated, our experienced tax specialists offer comprehensive tax planning. Our tax professionals routinely monitor current developments in tax legislation through comprehensive professional development programs. Their expertise and knowledge are readily available to all of our clients, both large and small.

Welch Consulting Group

Our consulting experience is routinely available to our clients as a normal part of our comprehensive services. We provide advice in many areas including: design and implementation of accounting systems; financial projections; electronic data processing feasibility studies; business plans; budgeting; acquisition and sales of businesses; business valuations; development of loan packages; set-up and administration of pension and profit-sharing programs; personal financial planning; and commodity taxation.

We also provide, at no additional charge to our clients, a publication entitled "Insights" - a Tax and Financial Planning Guide. As well, when important issues arise affecting a group of clients we will issue newsletters or hold seminars to keep clients adequately informed.

All of the firm's resources are made available to all of our clients.

Conclusion

Our aim with this publication is to provide an informative reference guide for starting a business. With it you should be able to deal successfully with many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas which you are not sure. The benefits will far outweigh the cost. We wish you luck in your new enterprise.

OTHER PUBLICATIONS AVAILABLE FROM WELCH LLP / LÉVESQUE MARCHAND S.E.N.C.

"INSIGHTS" - our quarterly tax and financial planning guide containing current articles of interest to all taxpayers and business owners.

"Tax Planning" - relevant information and figures for successfull tax planning.

"Tax Facts and Figures" - a quick reference summary of personal and corporate tax rates, tax credits, prescribed interest rates, contribution and benefit amounts, etc.

For more information, or to obtain any of our publications, please contact any Welch LLP/ Lévesque Marchand S.E.N.C. office. (See the listing of office addresses, phone numbers and fax numbers on the next page of this publication).

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Glossary of Terms

ACCOUNTING PERIOD: is the time period for which accounts are prepared, usually one year.

ACCOUNTS RECEIVABLE: sums of money owed by customers for goods or services purchased on credit.

ACCRUAL BASIS OF ACCOUNTING: is wherein revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. This is the accounting basis that generally is required to be used in order to conform to generally accepted accounting principles (GAAP) in preparing financial statements for external users.

AUDIT: is the inspection of the accounting records and procedures pf a business, government unit, or other reporting entity by a trained accountant for the purpose of verifying the accuracy and completeness of the records. It could be conducted by a member of the organization (internal audit) or by an outsider (independent audit). A Public Accountant audit determines the overall validity of financial statements. A tax audit determines whether the appropriate tax was paid. An internal audit generally deternines whether the company's procedures are followed and whether embezzlement or other illegal activity occurred.

BALANCE SHEET: is an itemized statement that lists the total assets and the total liabilities of a given business to portray its net worth at a given moment of time. The amounts shown on a balance sheet are generally the historic cost of items and not their current values.

BOOKKEEPING: is the art, practice, or labor involved in the systematic recording of the transactions affecting a business.

BREAK-EVEN ANALYSIS: is an analysis method used to determine the number of jobs or products that need to be sold to reach a break-even point in a business.

BREAK-EVEN POINT: is the volume point at which revenues and costs are equal; a combination of sales and costs that will yield a no profit/no loss operation.

BUDGET: is an itemized listing of the amount of all estimated revenue which a given business anticipates receiving, along with a listing of the amount of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles (such as a five year capital budget).

BUSINESS PLAN: is a description of a business (normally over a 1-5 year period). A basic business plan includes: product(s) and/or service(s), the market, competitor analysis, the key people involved, financing needs, and the financial rewards if the business plan is implemented successfully. A well-prepared business plan plays two important roles, firstly, it is a useful management tool that can help management plot a course for the company, and secondly, it is a vital sales tool that will impress funding sources, e.g., venture capitalists or the board of directors, with management's planning ability and general competence. Other things being equal, a well prepared business plan will increase a company's chances of obtaining a financial commitment to fund the business.

CAPITAL: the money invested in a business and used to buy the assets.

CASH FLOW: a company's ability to generate cash.

CHART OF ACCOUNTS: a list of ledger account names and associated numbers arranged in the order in which they normally appear in the financial statements. The Chart of Accounts are customarily arranged in the following order: Assets, Liabilities, Owners' Equity (Shareholders' Equity for a corporation), Revenue, and Expenses.

COMMODITIES: either goods in general, or specific raw materials or primary products (cereals, metals, tea, coffee, rubber, etc.) traded on special markets.

COMPANY: an organized group of people to perform an activity, business or industrial enterprise.

COMPETITOR: a rival in business offering the same or similar goods or services

CORPORATION: is a type of business organization chartered by a state and given many of the legal rights as a separate entity.

CREDIT: in accounting, is an accounting entry system that either decreases assets or increases liabilities.

DEBT: money owed to someone (for a business this might include bank loans, debentures, bonds, bills for goods or services, etc.)

DISBURSEMENT: the paying out of money to satisfy a debt or an expense.

DIVIDEND: a share in the annual profits of a limited company, paid to shareholders.

EQUITY: ownership or percentage of ownership in a company or items of value.

FISCAL YEAR: the declared accounting year for a company, but it is not necessarily in conformance to a calendar year (January through December). However, it does cover twelve months, 52 weeks, 365 days. For example, the Canadian government fiscal year ends March 31. April 1 though March 31 is their fiscal or accounting year.

FISCAL YEAR END: the end of a 12-month accounting period.

GENERAL PARTNERSHIP: one or more partners who are jointly and severally responsible or liable for the debts of the partnership.

GENERALLY ACCEPTED ACCOUNTING PRINCIPALS (GAAP): the overall conventions, rules, and procedures that define accepted accounting practice at a particular time in Canada.

INPUT TAX CREDITS: are essential refunds of GST paid on most business expenditures, including purchases for resale, capital purchases and most operating costs.

INSURANCE: the provision of financial protection for property, life, health, etc. against specified risk (accident, fire, theft, loss, damage, death, etc.)

INCOME STATEMENT: shows the profit or loss made by a company during the accounting period

INTERNAL CONTROL: is the system of checks and balances within a business enterprise, which helps to ensure that the business' assets are properly safeguarded and that the financial information produced by the business records is accurate and reliable.

INVENTORY: finished product that's ready for sale, but hasn't been sold yet. Inventory is considered a current asset, and shown on the balance sheet, generally at cost.

MORTGAGE: a loan, usually to buy property, which serves as security for the loan; to take out a loan with a property as security.

OVERHEAD: is the costs associated with providing and maintaining a manufacturing or working environment. For example: renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Includes indirect labour and indirect material.

PARTNERSHIP: is an unincorporated business that has more than one owner. It is different from a sole proprietorship in that a sole proprietorship can have only one owner.

REVENUE: is the monetary amount of annual sales, including returned merchandise and discounts, i.e., it is the top monetary figure from which costs are subtracted to determine net income.

REVIEW: is an accounting service providing some assurance to the board of directors and interested parties as to the reliability of financial data without the Public Accountant conducting an examination in accordance with GAAP standards. The CICA auditing standards board accounting and review standards for public companies while the CICA accounting and review services committee provides review standards for non-public businesses.

SHARE: a security representing a portion of the nominal capital of a company.

SOLE PROPRIETOR: is an individual that owns a business as opposed to stock in a corporation. A sole proprietor pays no corporate income tax, rather, the proprietor pays income tax on personal earnings and has unlimited liability for his/her business debts and obligations.

SOLE PROPRIETORSHIP: is a form of business organization. The distinguishing characteristics of a sole proprietorship include: only one owner for the business (hence, "sole") and the business is unincorporated.

VENTURE CAPITAL is capital committed to an unproven venture. The initial, start-up money is referred to as "seed money" and entails the greatest risk. If the project gets off the ground it may require additional financing at additional "rounds" or the "mezzanine level" before the company is finally brought to the market and the venture capitalist can enjoy handsome rewards. Experienced investors in venture capital situations typically plan on turning away a minimum of 9 out of every 10 proposals which are brought to them, and then they expect as many failures as successes from their selected investments.