



Guide 6: Basic Business Operations



Guide 6: Basic Business Operations for the Entrepreneur

■ INTRODUCTION

Welcome to the Citibank Small Business information guide series. This is one of ten guides that have been developed just for you, a person who is thinking about starting a small business or who has made the commitment to start one. It is targeted to people who are considering starting a small business as well as small business owners who want to learn more about successful strategies and skills. Citibank worked with a team of entrepreneurs like you to develop, write, and produce this series. All of us know how important it is to have clear and concise information to make smart business decisions. Our goal is to share experiences about the dynamic, exciting small business community.

■ Overview

Everyone who starts an entrepreneurial venture wants to be successful. However, success does not happen overnight, and it is not guaranteed. A major theme throughout this series of guides is making the right decisions for your business. This guide provides information and many of the tools for you to make the operational decisions – decisions about the daily activities of a business - toward establishing a successful business formula. The focus of this guide will include the following five topics.

- **Business Legal Structure**
- **Business Physical Operations**
- **Business Regulations and Guidelines**
- **Business Financial Operations**
- **Day-to-Day Operations Management**

There is a lot to know about the operations of a business, and this guide covers a lot of information. Go through this guide at your own pace and give yourself enough time to absorb the information.



Sound operational decisions are part of a successful business formula.

I. Business Legal Structure

When deciding to establish a business venture, the first decision you need to make relates to the legal structure of the business – in other words, what kind of business are you going to legally establish? The basic legal structures include the following.

- Sole Proprietorship
- Partnership (General or Limited)
- Corporation (C and S)
- Limited Liability Company (LLC)

Each of these business structures has advantages and disadvantages. The right choice for you should match the purpose of your business and any related tax and liability issues.

You will see the terms “legal liability” (both “limited” and “unlimited”) throughout this guide. It is important to understand and accept your liability, or legal financial responsibility, when you start a business. Limited liability, as in stockholders of a corporation, owners of LLCs, or limited partners in a limited partnership, generally means that you are *responsible (liable) only* for the amount that you have invested into your company. If you should encounter financial problems in your company, you lose what you have invested, but your personal assets are not included, such as home, car, etc. There are exceptions to this general rule, which you should discuss with your attorney. However, unlimited liability, as in a single proprietorship or general partnership, means there is *no distinction between business and personal responsibilities*. If you should encounter financial problems and have unlimited liability, your personal assets could be taken from you and used to pay back the debts of the business. Protecting your personal and business assets against a lawsuit is a primary reason to carefully consider the legal structure of business.

There are many laws and regulations that apply to small business owners; therefore, it would be wise to consult with an attorney or CPA (Certified Public Accountant) to fully understand your legal responsibilities. The following chart provides an overview of the six types of legal structures for businesses. For additional background on these types of businesses, visit http://www.sba.gov/starting_business/legal/forms.html



Weigh the pros and cons of each business legal structure carefully before choosing.

Types of Business Structures					
	Ownership	Personal Liability	Formation Documents	Tax	Management
Sole Proprietorship	One owner	Unlimited personal liability for obligations of the business	None but DBA Certificate (doing business as) may be needed	Business not taxed. Owner taxed on profits and losses.	Owner
General Partnership	Unlimited number of general partners	Unlimited personal liability for obligations of the business	None but General Partnership Agreement may be needed to set forth partner duties	Business not taxed. Profits and losses are passed through to partners.	Partners have equal management rights unless they agree otherwise.
Limited Partnership	Limited number general and limited partners	Unlimited personal liability of the general partners; liability for limited partners is generally based on the amount invested.	Certificate of Limited Partnership Limited Partnership Agreement	Business not taxed. Profits and losses are passed through to partners.	General Partner manages the business, subject to the Limited Partnership Agreement.
"C" Corporation	Unlimited number of shareholders	Limited liability	Articles of Incorporation Bylaws	Tax on earnings at corporate level	Board of Directors has overall responsibility with officers having the day-to-day responsibility.
"S" Corporation	Limited - up to 75 shareholders	Limited liability	Articles of Incorporation Bylaws IRS & State S Corporation Election	Business not usually taxed. Profits and losses are passed through to the shareholders.	Board of Directors has overall responsibility with officers having the day-to-day responsibility.
Limited Liability Company (LLC)	Unlimited number of members	Limited liability	Articles of Organization Operating Agreement	Business not taxed. Profits and losses are passed through to owners.	Established by the Operating Agreement



For purposes of this Guide, the focus will be Sole Proprietorships, Partnerships, and Limited Liability Companies (LLC). Let's review a few highlights of the targeted business structures.

Sole Proprietorship

This is the simplest form of organization and probably the most common, mostly due to the fact that it is easiest to form and requires the least amount of legal regulation. The term “regulation” is another word for laws, rules, or guidelines. Usually, a registration (Doing Business As (DBA) Certificate) secured from the City or County Clerk’s Office is all that is required. Because the sole proprietorship has unlimited liability, all profits and losses belong to the owner. As long as the profits do not exceed a certain amount, there is a tax advantage because the income is taxed at the personal income level. However, a major challenge might be in success itself. With expanded growth and financial success, the process of operating a sole proprietorship can become challenging.

When we think of sole proprietorships, we usually think of small businesses, such as retail food stores, drug stores, restaurants, hair salons; places usually found in our local neighborhoods.

Partnership

A partnership is an arrangement where a small number of individuals own the business. Think about whether you prefer to go into business on your own or with one or more partners. In both types of partnerships, general and limited, there is unlimited liability for the debts of the business; however, the limited partner is generally responsible only for the amount invested in the business. There are certainly advantages and disadvantages for establishing a partnership, especially in the financial and management aspects of the business. Partnerships should always be established through formal, written contracts.

When we think of partnerships, it is usually a situation where someone has had a sole proprietorship and then decides to expand to have other partners involved. It may also be a situation where two people decide to join forces in business to combine their skills and financial resources.



**Many small
businesses
begin as sole
proprietorships.**

Limited Liability Company (LLC)

Limited liability companies (LLC), allowed by state statute, are becoming more and more popular. They combine the personal liability protection of a corporation with the tax benefits and simplicity of a partnership. The LLC is a separate and distinct business operation allowing it to obtain a tax ID number, open a bank account, and conduct business, all under its own name. The primary advantage is that the owners are not personally liable for the debts and liabilities of the LLC. A LLC with employees requires payroll taxes and unemployment insurance. The requirements for formation of a LLC and annual fees vary from state to state so be sure to learn about your state's current regulations and procedures.

An LLC is commonly a small business where the owner has decided to structure it as an LLC rather than as a sole proprietorship, in order to benefit from the limited liability condition.

We should emphasize that no one can point to any one type of business organization as the “best” for any given situation. All sizes and legal structures have advantages and disadvantages. When you decide to start a business, think carefully about all the options and then determine which would be best for you.

II. Business Physical Operations

Activity: Review the business structure chart on page 3 and think of the purpose of your business. Answer the following questions.

- What level of risk am I willing to accept?
- Of the six options, which structure would be best for my business?
- What are the advantages in choosing this option?
- What are the disadvantages in choosing this option?



When starting a business, consider all structure options with care.

Once you have established the legal structure for your business, you need to think about the physical operations of the business. Business operations include the location of your business and the processes, resources, and other tools you will need to transform inputs (raw materials, labor, and capital) into outputs (goods or services). To maximize your outputs for profitability, you must organize your inputs. While some businesses have unique physical operational needs, there are basic areas for all business owners to consider. The operational decisions you make can improve the efficiency (and profit line) of your end product. There is no one right design for a business's physical operations; it depends on the product (good or service) and the production process. As a business owner, it is essential to make certain that all operations function well and integrate with one another effectively.

- **Location and Facility**

Which of the following physical operations do you need to consider for your business?

Worksheet: Do the Math	
If I choose to have a building that currently exists, what would be the annual cost for me to obtain the facility I need under the following options?	
• Annual cost to rent?	
• Annual cost to lease?	
• Annual cost to buy?	
Based on my current financial standing, which of the above options would be the best financial business decision for me?	



Though each business is unique, they can share many basic characteristics.

Should I lease or buy my physical facility? Should I build a new facility or buy an existing one? Where should I locate my business to reach the greatest number of customers and to provide efficient access to employees and vendors? Factors such as visibility, traffic flow, parking, and tenant compatibility are also important. You will need to consider many factors such as square footage, layout, utilities, storage, etc. Location may be critical even if you are planning a home-based business.

When making the decision to lease, to buy an existing facility, or to build a new facility, consider your goals and the desired end result. Would it be better to lease (or rent) an existing facility so you would not be tied to a location and therefore, able to move as your business expands? Or, would you want to find a facility large enough to house your existing business, with room to expand in the future? Also, consider that when leasing, many owners “remodel to suit your needs,” potentially saving you money.

- **Operational / Production Equipment and Maintenance**

Should I lease or buy my office equipment? If I do lease, should I lease all of the equipment or only certain pieces? Along with the equipment, how should I manage the maintenance? Which is more cost effective – buying or leasing? What are the advantages and disadvantages of each? To help you answer these questions, visit <http://www.citibank.com/us/citibusiness/leasing.htm> and <http://www.citibank.com/us/citibusiness/credit.htm>

- **Employees**

If I need employees, how many and in what job functions? Should I hire the employees full-time, part-time, or on an “as needed” basis? Do I need a sales force? What are the advantages and disadvantages of the various options?

- **Professional Assistance**

Even if you determine that you don’t need employees, you may sometimes need outside expertise to help you meet your business goals. With a small



Even if your business is small now, it's a good idea to plan for expansion.

business, especially a new business, many of the basic day-to-day operations can become overwhelming and sometimes keep you from focusing on the bigger picture. Think about the most cost-effective way to use your time and talents. Then, ask yourself what outside professional services you might help you to be more successful and your business more profitable. When full-time and even part-time assistance is prohibitive, you can still build an infrastructure of professionals to assist you – with the advantage of not having fixed overhead. Remember that financial institutions like Citibank provide professional assistance in organizing the financial part of your business. These professionals can help you with setting up your payroll service, processing tax payments, as well as other important functions in your business.

When considering professional assistance, identify the key operational functions you will need in your business. Do you need help with accounting and bookkeeping? Have you identified an attorney to work with? The decision may be to contract with a company rather than an individual. Either way, treat these contractual agreements just as you would in hiring employees. Interview the candidates, ask questions, discuss fees and services, and consider giving them a small assignment so that you can sample their services before you engage in a long-term relationship. When identifying the right combination of services, don't let price be the only factor in your decision. Higher prices are not always a guarantee of better service, and lower prices do not always mean a lower level of service. Experience and expertise is usually a winning combination.

Take the time to think about why you need these professionals and do not hesitate to seek their assistance and expertise.



**Many businesses
rely on other
businesses for
expertise and
assistance.**

Activity

Think of your proposed business. For each of the categories listed, summarize your initial plans for each, based on the end-product.

Physical Operations	Applies to my business? (yes/no)	If yes, what are my needs?
Location and Facility		
Operational Equipment and Maintenance		
Production Equipment and Materials		
Employees		
Professional Assistance		

Additional Physical Operations Questions to Consider:

- What are the industry standards in each of these areas?
- Does the industry standard align with my business goals?

III. Business Regulations and Guidelines

There are laws and regulatory requirements that affect every aspect of your business venture. While it might be frustrating to deal with the many regulations, most exist for the protection of your business venture. Many of the regulatory requirements exist at multiple levels -- local, state, and federal. Don't hesitate to consult with appropriate professionals who will listen to your business plan and provide you with the expertise and guidance you need. *Remember: It is your legal responsibility to be aware of the guidelines and any changes in taxes and regulations.*



Because it would be impossible to list every law and regulation in this Guide, we will highlight the critical categories of business formation, taxes, intellectual property, legal documents, and insurance.

Business Formation

There are many regulations that are applicable to small business owners. It is best to consult an attorney or CPA to determine to the full range of requirements. The basic highlights include the following.

- **Federal Government**

Employer Identification Number (EIN) () – Form SS-4

No matter what legal structure your business takes, taxes will exist. In order to receive credit for tax payments, you must have a business identification number, known as an Employer Identification Number. Issued by the Internal Revenue Service (IRS), you will need to include your EIN on all tax returns and any other documentation you send to the IRS. To receive an EIN, obtain and file IRS Form SS-4, Application for Employer Identification Number. The application, along with the filing process, is available from your local IRS office or online at <http://www.irs.gov/businesses/small/article/0,,id=99194,00.html>

Employment Verification – Form I-9

If you have employees, you will need to complete Form I-9 – Employment Verification Form – issued by the U.S. Customs and Immigration Service. As an employer, you are responsible for verifying that each employee is eligible to work in the United States. The form is available from the U. S. Customs and Immigration Service, the local IRS, or online at <http://www.irs.gov/businesses/small/article/0,,id=99194,00.html>



- **State Government**

You can go to a Secretary of State website for all state business requirements. (i.e., <http://sos.state.TX.us/>) Remember to insert your two-letter state postal code identification in place of the “TX” example used in the website above.

Business Registration

To register to conduct business in a state, you should contact the (state) Secretary of State for a Business Registration Form. There is usually a minimal fee for the registration, and it is renewed each year.

Sales Tax License

If you sell retail products and your state imposes sales tax on these products, you are responsible for obtaining a sales tax license. The application and further instructions can be obtained from the (state) Department of Revenue.

Articles of Organization (LLC Business Structure)

If your business structure is a LLC (Limited Liability Company), you will need to complete and file the Articles of Organization with the (state) Secretary of State. There is usually a minimal fee for the filing process.

- **Local Government (City and County)**

Business Registration

Sole proprietorships and general partnerships operating under an assumed name should apply for a DBA (Doing Business As) Certificate. This is usually a one-time occurrence. The City and County Clerk’s office can advise you on these regulations.

Permits and Licenses

Will your business require zoning, health permits, or environmental approvals to operate? The regulatory requirements depend on the structure



Filing for permits and licenses is an important step in making your business legal.

of the business, the location, and/or the product or service you are offering. An attorney or CPA will be able to provide the requirements for business licenses, as well as building codes and permits, zoning laws, health department requirements, and environmental laws. You will need to successfully complete all requirements before opening your business. Contact the City and County Clerk's Office where you will be doing business to determine your permit and license requirements.

Taxes

The legal structure of the business, along with the product or service you offer, determines what taxes you must pay and how you pay them. Among these taxes are income tax, self-employment tax, employment tax, sales tax, and excise tax. With each of the following categories, the IRS web site is a central repository for appropriate tax forms. See <http://www.irs.gov/businesses/small/article/0,,id=99194,00.html>.

- **Income Tax**

All businesses file an annual income tax return with the IRS – and possibly with the state(s) where the business operates. Most businesses file a quarterly Estimated Tax Payment (Form 941) during the year, meaning they deposit estimated tax payments as they go and reconcile any differences on their annual tax returns.

- **Employment Tax (Payroll Taxes)**

Under the Federal Insurance Contributions Act (FICA), as of 2005, 12.4 percent of any earned income up to an annual limit must be paid into Social Security, and an additional 2.9 percent must be paid into Medicare. If you have employees, you will need to collect and deposit employment taxes from their wages/salaries, as well as your employer's share. Form W-4, Employee's Withholding Allowance Certificate, issued by the Internal Revenue Service and completed by all employees, allows employers to determine the amount of employment taxes to withhold from the employee's wages. As an employer, deposits are made on a quarterly basis with the IRS and the (state) Department



Businesses are subject to several different kinds of taxes.

of Revenue. Also included in this category of tax payments are the employer's contributions toward the state unemployment tax – Form 940.

- **Self-Employment Tax**

If you are self-employed, you will be responsible for paying the full extent of FICA and other employment taxes, as noted in the above paragraph.

- **Sales Tax Reports and Payments**

If your business sells retail products and your state imposes sales tax on products, then you are responsible for collecting and paying that tax. The tax is computed on the product's sale price. The sales tax you collect must be forwarded to the state, either on a monthly or quarterly basis, depending on the volume of your sales. Check with your (state) Department of Revenue to determine appropriate requirements and payment process.

- **Excise Tax**

If you manufacture or sell certain products, operate certain types of businesses, or use certain types of equipment, facilities, or products, you may be required to pay excise taxes. For a current list of those categories, check with your local IRS office.



Sales tax paid by a business varies depending on where it is located.

For help on tax questions, check out the following resources.

- **Small Business Tax Education Program** - Workshops provided by partnerships between local organizations and the IRS. Check with your local IRS office.
- **IRS Questions, Tax Forms, and Publications** - Variety of helpful information from your local IRS office or online at <http://www.irs.gov>
- **Small Business Administration** - Variety of services to small business owners including training, educational programs, counseling, etc. Contact your local SBA office or visit <http://www.sba.org>

Intellectual Property

No matter the type of business, all businesses have “intellectual property.” Many business owners overlook this management area until it is too late. The term intellectual property covers a broad spectrum of rights related to inventions, trade secrets, creative works along with patents, trademarks, copyrights, etc. From the very beginning stages of the business, you need to take the proper measures to protect all forms of your business intellectual property. These actions can be as formal and legal as obtaining copyrights, trademarks, etc. or as simple as limiting access to certain materials and information or marking items as “Confidential.” Although an attorney is not required, it is recommended, and professional legal assistance can help you preserve your intellectual property rights.

The purpose of protecting your intellectual property has a dual impact. You also need to be sure that you do not infringe on the intellectual property of others. Be careful to ensure that employees do not decide to leave your company and take your ideas with them.

- **Patents**

The best protection you can get for a new product or process is a patent. A patent gives its originator the right to prevent others from making, using, or selling the patented product or process. To qualify for patent protection, a product does not have to be new. It can be an improvement on an existing product or process. Be sure to check out the conditions under which you can apply for and receive a patent at the U. S. Patent and Trademark Office at <http://www.uspto.gov>. You can do an initial search to determine if a patent already exists.

- **Trademarks**

A trademark protects the symbolic value of your product – your brand. A trademark can be a name, symbol, device (or a combination) that is used to identify or distinguish the product from others. You can establish a trademark by simply using the ™ symbol, but it is best to have federal registration (®) of the



It is important to protect your original ideas with patents and copyrights.

trademark should you ever need legal action. To register, complete the necessary forms with the U. S. Patent and Trademark Office. There is a fee. If granted, the trademark is protected initially for 10 years. Check out <http://www.uspto.gov/> for a quick search to see if your proposed name, symbol, device, etc. infringes upon existing trademarks and to get more details.

- **Copyrights**

No matter what you produce, you are entitled to protection under copyright laws. You can copyright items such as art, books, music, jewelry, software, advertisements, etc. A copyright rests with either the person who actually creates the work or with the employer, if the work is created “within the scope of an employee’s employment.” All employees should sign a Copyright Agreement, and any independent contractor should sign an Independent Contractor Agreement that usually contains a “work for hire” clause. Also, it would be beneficial for you to get legal advice on these matters as well.

- **Confidentiality Agreements**

Your intellectual property can make or break the success of your business. When you are working with tangible items, it is much easier to obtain a copyright, patent, or trademark — but what about protecting your creative ideas? Your ideas are very important and should be protected as well. So, be careful with whom you talk and how you share your business ideas. If the ideas are important enough, it is best to have all parties sign a Confidentiality Agreement. As a business owner, you have the right to take action against anyone who breaches an agreement, a confidential relationship, or comprises your confidential business information.

Legal Documents

Every business, large or small, has legal paperwork that tracks and documents the activity of the business. These documents include contracts, sales agreements, leases, purchase orders, service agreements, etc. The right type of document will serve as a



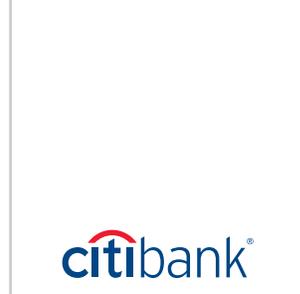
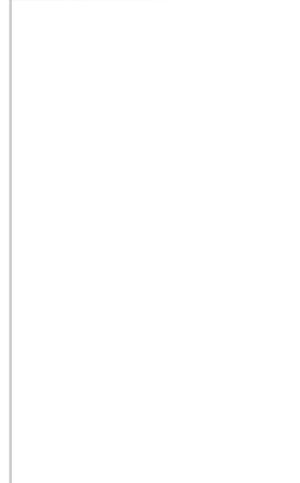
**Intellectual
property can be
as valuable as
physical property
- guard it well.**

valuable and legal representation of your business activity. When deciding which legal documents are needed, become familiar with the industry standards in your business. Let's review a few types of legal documents that you may need in your business venture.

- **Contracts**

A contract is an agreement between parties, with terms and conditions that constitute a legal obligation of all parties involved. There are many templates for you to use as a reference when developing a contract but remember that each contract must be unique to the situation. Contracts can vary from pre-printed forms to oral contracts to e-mail contracts. However, your best defense is to have a well-written, signed contract. When done correctly, contracts are your best defense when conflicts with employees, suppliers, or customers arise. While every contractual circumstance is different, every contract should have some or all of the following components.

✓	Checklist: Critical Contract Components
	<ul style="list-style-type: none"> • Identification of parties. Complete names, addresses, etc. for all parties.
	<ul style="list-style-type: none"> • Contract Background. All critical information about the project and any key assumptions.
	<ul style="list-style-type: none"> • Obligations. What each party will do and by what date, etc.
	<ul style="list-style-type: none"> • Contract Terms. The length and renewal or extension process, if necessary.
	<ul style="list-style-type: none"> • Price. Not only the amount of money to be exchanged but how the price was determined.
	<ul style="list-style-type: none"> • Payment Process. When the payment is due and how it will be paid (installment or one lump sum), etc.
	<ul style="list-style-type: none"> • Warranties. Under what conditions the product will be delivered, etc.
	<ul style="list-style-type: none"> • Liability. Conditions surrounding the end product.



	<ul style="list-style-type: none"> • Contract Termination. When the contract will end and what happens if one of the contract parties has to terminate early, etc.
	<ul style="list-style-type: none"> • Confidentiality. Which party may publicize the project, etc.

- **Leases**

Leases outline the rules and regulations that allow a landlord to provide, maintain, and operate a facility or equipment. In exchange for the agreement, you receive access to the facilities and/or equipment. As with all contracts, it is critical to read carefully before signing, as leases can make you accountable for many things. The best lease is a written lease that clearly sets out the responsibilities and terms for both parties and is easily referenced when questions come up.

- **Sales contracts**

The sales contract defines the price, terms, and conditions of the sale of services, equipment, or other products. A sales contract can vary from the fine print found at the bottom of a sales ticket to a document tailored to the specific sale. To establish your business, your sales contracts should represent your business, have a standardized look, and represent something that is non-negotiable.

Insurance

Insurance is defined as protection against risks. And there are many risks associated with starting a business. To protect your business and yourself, consider the following insurance options.

- **Business Property Insurance**

To decrease the risks involved with owning property, research available insurance policies covering losses due to theft, fire, weather conditions, and other losses.



Insurance is a critical aspect of protecting your investment in your business.

- **Business Liability Insurance**

Business liability insurance protects both your business and personal life from potential financial ruin. Business liability insurance protects your business in the event of a lawsuit for personal injury or property damage by not only covering the damages from the lawsuit but also the legal costs. It can be purchased in the form of general liability, professional liability, and product liability.

- **Worker's Compensation Insurance**

Under laws in most states, employers with more than a certain number of employees are liable for most job-related accidents. This type of insurance allows employers to contribute to a state insurance fund, from which benefits are paid to workers who are injured while on the job.

- **Excess Liability Insurance**

Deciding how much coverage is right for your business is a personal decision. If you feel you need additional protection *above and beyond* your current liability limits, you can purchase excess liability insurance, sometimes known as an umbrella policy. This umbrella provides additional liability protection in case a judgment against you exceeds the liability limits of your initial policy.

- **Employment Practices Liability Insurance**

This is a relatively new form of liability insurance covering the business as well as management. It provides protection for an employer against claims made by employees, former employees, or potential employees by covering discrimination (age, sex, race, disability, etc.), wrongful employment termination, sexual harassment, as well as other employment-related allegations.

IV. Business Financial Operations

With all businesses, accounting records must be maintained. Although there are many software accounting systems available, the key is to have an accounting system that is



Be sure you know what kinds of liabilities your insurance policies cover.

suitable for your type of business. Even though you may rely on others to maintain financial records, you need to understand the accounting system to protect your interests. You should keep your business account separate from your personal account (see **Guide 9** for more information on this topic). It is smart to establish a relationship with a financial institution *before* the need for financial assistance arises.

Accounting System

Your accounting system is a business mirror; it serves as a source of checks and balances for your business. You need to know basic accounting principles and bookkeeping procedures so you can talk intelligently about your accounting needs with employees, bankers, accountants, etc. (You may recognize the following statements from **Guide 4**.) The three major financial forms that you should maintain are the following.

- **Income Statement (also known as Profit and Loss Statement)**

The income statement tracks your income over time and calculates your net income; it tells you if the business is profitable or not. To determine your net income, add all business revenue and then subtract all costs and expenses of operating the business. Income statements are usually prepared monthly, quarterly, or annually and are most effective when they include a comparison to financial activity for the same period of time in a previous year (i.e., the first business quarter of 2005 compared to the first business quarter of 2004). Income statements are valuable for business projections, calculating taxes, evaluating the business's progress, and attracting potential investors. Add categories and customize this worksheet as needed, based on the needs of your business.



**Sound accounting
is the backbone
of your business
operations.**

Income Statement

Business: _____ Year Ending: _____

Revenues/ gross sales	
Less returns	
Less discounts	
Less bad debt	
Interest, rent, royalties	
Refunds, reimbursements	
Total Income	
EXPENSES	
Cost of goods sold	
Payroll	
Taxes, except income tax	
Sales expenses	
Office rent, other expenses	
Equipment costs, other	
Telephone	
Marketing, ads, promotion	
Interest on loans	
Bank charges	
Travel and entertainment	
Contributions	
Utilities	
Benefits, health	
Benefits, disability	
Insurance, business	
Professional fees	
Mileage	
Shipping and postage	
Storage, other	
Miscellaneous	
Total Expenses	
Net Income	
Less Income Tax	
NET INCOME AFTER TAX	



- **Balance Sheet**

The balance sheet on the following page represents a picture of the financial condition of the business, as of any given date. It tells you how much the business is worth. It is prepared at least annually and contains two equal parts — Net Worth and Liabilities. Very simply stated, the balance sheet shows what the business owns (assets), what the business owes (liabilities), and the difference between the two. The difference between Assets and Liabilities represents the business's net worth. If possible, it is good to include comparative figures from a benchmark time period. Within the balance sheet are two very important categories - Accounts Receivable and Accounts Payable. Accounts Receivable represents money due from customers. You'll want to monitor these accounts carefully! Accounts Payable represents money the business owes for various goods and services. Monitoring accountable payable insures a sound credit record.



Keep updated records on what is owed to your business, and by whom.

Balance Sheet (as of: _____)

Company: _____ Date: _____

	Last Month	This Month
Assets		
Cash		
Investments		
Accounts Receivable		
Inventory		
Prepaid Expenses		
Other Current Assets		
Land		
Buildings		
Long-term Investments		
Intangibles		
Other Assets		
TOTAL ASSETS		
Liabilities & Equity		
Short-Term Notes		
Long-Term Debt		
Accounts Payable		
Accrued Expenses		
Taxes Payable		
Stockholder Loans		
Other Current Liabilities		
Bonds Payable		
Common Stock		
Paid-in Capital		
Retained Earnings		
Other:		
TOTAL LIABILITIES & EQUITY		
Net Worth (Total Assets - Total Liabilities) = Net Worth)		



- **Cash Flow Statement**

Most beginning businesses have a crucial need to know, on a daily basis, how much cash they have now and will need in the immediate future. The cash flow statement on the following page tracks the cash on hand. Your business may bring in income or revenue, but if you don't have enough cash to pay your bills, you need to pay more attention to the cash flow statement to ensure you are progressing to where your income is greater than your expenses.



Cash flow will be important to the day-to-day operations of your business.

6-Month Cash Flow Statement

Business: _____ Time Period: _____

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	NOTES
Sources of Cash Flow							
Net Income After taxes							
Depreciation							
Decrease in Inventory							
Increase in Accounts Payable							
Increase in Long-Term Debt							
Other liabilities							
Capital and Operating Costs							
Owners Draw/ Dividends							
Inventory increases							
Increases accounts receivable							
Decrease, accounts payable							
Capital expenditures							
Long-term debt							
Asset increases							
Decrease in liabilities							
TOTAL CASH DISBURSEMENTS							
Monthly Cash Flow							
Cumulative Cash Flow							
+ or -							

To find these and other forms, visit <http://www.sba.gov/library/forms.html>.



Bookkeeping & Bookkeeping Records

To produce the necessary financial statements, you need data that is correct, current, reliable, and documented. Maintaining journals and ledgers will ensure that you have the necessary and correct data. A journal is a documented reference of each business transaction supported by receipts, etc. You may have separate journals for specific categories. A ledger is documentation of your totals from the various journals. Journals and ledgers can be maintained in hard copy or electronic format. However, if you use an electronic system, it is strongly suggested that you maintain a hard copy backup system.

Whichever record-keeping system you adopt, it must clearly show your income for the tax year. Purchases, sales, payroll, and other business transactions will generate documents such as invoices, receipts, deposit slips, cancelled checks, etc. The information in these documents reflects the financial activity of your business and should be organized according to the type of income or expense.

- **Gross Receipts**

These receipts document the income that your business receives, including the source and amount. Receipts may include invoices, bank deposit slips, receipt books, etc.

- **Purchase Receipts**

These receipts document items that you purchase to use in the production process or for resale to customers. This category can include cancelled checks, cash register receipts, credit card sales slips, invoices, etc.

- **Expense Receipts**

These receipts document the costs that you incur to operate your business. This category can include credit card sales slips, cancelled checks, invoices, and even the petty cash slips for small purchases, etc.



Recordkeeping is a necessary component of running any business.

- **Special Expense Receipts**

Because such guidelines change on a regular basis, always check with the IRS at <http://www.irs.gov> for current guidelines that govern business expenses related to travel, transportation, entertainment, gifts, etc.

- **Tax (employment, sales, etc.) Receipts**

Whether these are employment records, tax payment receipts, etc., copies must be kept for documentation purposes.

- **Assets**

You should document your business assets - the property you own and use in your business operation. Along with the purchase and sales invoices, your records should show the following about each asset.

• When acquired	• Any losses, etc.
• Purchase price	• How asset was used
• Improvement costs, if any	• When and how to dispose of
• Depreciation deductions	• Selling price along with expense of the sale

V. Day-to-Day Operations Management

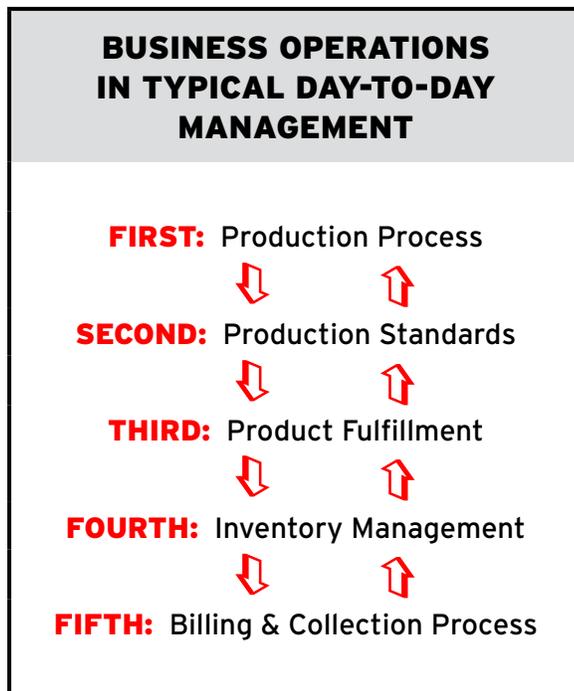
Now that you have established the legal structure, secured the physical operations, and complied with the necessary regulations and guidelines, it is now time to take a look at the daily management process.

What happens on a daily basis in your business? Are there established and adopted operations procedures? If so, are they clear to everyone in your business? Are there benchmarks established to regularly assess operations and adjust procedures when necessary? Is the interrelationship between the operations evident?



Maintain good records of your assets.

Take the time to carefully review the daily operations within your business. The chart below illustrates basic operations that happen in any business, whether it is a business dealing with a product or a service — all businesses deal with production, fulfillment, billing, etc. Each of these operations is integrated and impacts one another. For example, if products are not produced and delivered, then billing cannot happen. As a manager, your overall responsibility is to see that all operations run smoothly. The various checklists that follow the chart below provide you guidelines to keep that operation running smoothly. Feel free to add steps specific to your business. What steps are necessary to keep operations moving well in your business?



FIRST, review the production process.

Whether your business provides goods or services or both, you must fully understand all that is necessary to produce the end product. Use the following checklist to think about your production process and make changes and adjustments where necessary to improve efficiency and profit margins.

Do I Have an Established Process? (Yes or No)	Business Operations Checklist: Production Process
	• Are the necessary raw materials available and accessible?
	• Is the necessary equipment available and accessible?
	• Will employees have the space to perform their work?
	• Is there space to store production materials and supplies?
	• Can materials and supplies be moved around easily and safely?
	• Will the employees be safe?
	• Will I contract with vendors to provide components for the final product?
	• Have I established a process to monitor production quality?



SECOND, review the production standards.

While reviewing the existing production process, consider the type of production involved in your product. Is your production process classified as job or continuous flow? By this we mean, is one person responsible for producing the total product (as in job production) or is the end product moved from one process to the next process until a final product results (continuous flow)? Think of your last visit to the dentist. The dentist probably did not handle all aspects of your visit. There was the receptionist, the dental assistant, the dentist, and the billing clerk. The same might apply to the car repair business; different people handle different aspects of the repair job, but all work together to produce a repaired car.

Within each type of production process, to be efficient, you probably need to consider such factors as flow, flexibility, number of products to be produced, capital (money and equipment) investment, labor skills of all involved, and production volume. Are there industry production standards that can be adopted for increased efficiency? Most organizations have suggested guidelines, even “tips from the pros,” that you might be able to implement in your small business for greater efficiency.



Do I Have an Established Process? (Yes or No)	Business Operations Checklist: Production Standards
	<ul style="list-style-type: none">• Do I utilize industry standards to produce my product?
	<ul style="list-style-type: none">• Do the production standards I use give me a competitive edge?
	<ul style="list-style-type: none">• Do the production standards I use produce the necessary volume?
	<ul style="list-style-type: none">• Do my production standards support a positive flow among the raw materials, labor, equipment, and transportation of the end product?
	<ul style="list-style-type: none">• Have I established a process to monitor production standards quality?

THIRD, review the product fulfillment process.

There must be an established process in place to get quality products and services to your customers in a timely fashion. What will your process be?

Do I Have an Established Process? (Yes or No)	Business Operations Checklist: Product Fulfillment
	<ul style="list-style-type: none">• Is there a process for taking, processing, and delivering products?
	<ul style="list-style-type: none">• Who is responsible for order processing?
	<ul style="list-style-type: none">• Is there a process to communicate the orders from sales to fulfillment to finance?
	<ul style="list-style-type: none">• Am I satisfied with the time needed from beginning to end to fulfill an order?
	<ul style="list-style-type: none">• Have I established a process to monitor product fulfillment quality?



FOURTH, review the inventory management.

Inventory exists to improve the level of service provided by the business. How? The right amount of the right tools and equipment will provide you with what you need, when you need it, without enormous stress on your operating capital. Consider what might happen if you are repairing a car and in the middle of the process, you find that you do not have the correct replacement parts. Having all the materials, tools, and equipment to successfully complete the job is critical in having a successful business.



Do I Have an Established Process? (Yes or No)	Business Operations Checklist: Inventory Management
	<ul style="list-style-type: none">• Do I have an inventory control procedure for my business? If so, what is it?
	<ul style="list-style-type: none">• Is there a specific person responsible for inventory control?
	<ul style="list-style-type: none">• Is a physical inventory taken on a regular basis?
	<ul style="list-style-type: none">• Does my product have a minimum level of inventory?
	<ul style="list-style-type: none">• Will I need external warehousing? If so, for what length of time and how will this be determined?
	<ul style="list-style-type: none">• Have I established a process to monitor inventory management quality?

FIFTH, review the billing and collection process.

Billing is the process of invoicing customers for goods produced and delivered or services rendered - and reminding them of overdue payments. Although collecting overdue payments may be unpleasant and difficult at times, it is part of the process. What is your billing and collection process? Can it be more efficient?

Do I Have an Established Process? (Yes or No)	Business Operations Checklist: Billing and Collection Process
	• Do I have a billing and collection process?
	• If so, is it working efficiently and effectively?
	• If not, where is the breakdown; how do I fix these areas?
	• Do I have the right type of billing forms for my business?
	• Do my clients know how my billing procedure works?
	• Are my clients aware of my internal and external collection processes?
	• Are they aware of when late payments go to external collection?
	• At what point must I write off payments never received?

■ Summary

A business, no matter how simple or how complicated, has many interrelated functions. All of these business operations mentioned are important to the stability of the business. Even though you may not have a separate department or employee set up for each of these operational areas, those functions still exist and are constantly interacting with one another, sometimes in ways that are not immediately obvious. The best situation is when there is a separation of responsibilities. But, if that is not possible, there should be established benchmarks to assess all activities of the business on a regular basis.

Establishing and operating a business is an entrepreneurial dream. There will be challenges along the way because no matter how prepared you are, you have to be



ready to accept the realities of cash flow, drop in sales (or even insufficient sales), new competition, economic recessions, and employee issues. However, by maintaining hands-on oversight to ensure the integration of the various functions, your long-term goals can more readily be achieved.

VI. So, What's Next?

We hope this guide has been helpful. Next, in **Guide 7**, you will explore the **Basic Business Operations for the Entrepreneur** and the information and tools needed for effective day-to-day management of the employees who contribute to producing the goods and services that your business provides. Be sure to review and use the other guides in this series as you continue your exploration of entrepreneurship.



VII. Glossary

Accounting

a systematic method for keeping track of financial transactions

Accounts Payable

money owed by the business to landlords, suppliers, employees, and others

Accounts Receivable

money owed to the business by distributors, customers, and others

Assets

anything that you own that can be converted to cash to pay debts; usually listed in order of liquidity

Balance Sheet

a financial statement that provides a description of a business's financial position as of a given date, usually the close of an accounting period

Bookkeeping

recording business transactions and reconciling business activities

Continuous Operations

production activity yielding a standardized product. Raw materials are continually entered in the production process. Oil refining is a continuous production yielding a standardized petroleum product from raw materials.

DBA - Doing Business As

an assumed name a person uses for a business instead of a personal name. A certificate is filed at the city or county courthouse to use an assumed name.

Expenses

operational costs incurred doing business; examples include wages, insurance, rent, and taxes

Intellectual Property

any concept, idea literary creation, computer program, or creative work that is definable, measurable, and proprietary in nature

Internal Controls

accounting method designed to promote efficiency, safeguard assets, and discover and avoid fraud or error

Inventory Control

accounting system of maintaining inventory to prevent stockouts and reduce holding costs

Job Shop Operations

business that makes products to order instead of to anticipated demand

Legal Structure

a method of organizing a business and business activity

Lease

contractual agreement between a property or equipment owner and the leasing individual. Used in reference to obtaining vehicles and equipment, office space, and personnel

Limited Liability

the restriction of a person's potential loss to the amount invested with no personal liability. A person's personal assets cannot be taken to pay off the debts of a business.

Operations Management

the management over the daily activities of a business

Outsourcing

having a service or product supplied or produced by another



Process Flow

production that divides the productive procedures into organizational segments. Example might be automobiles where the production might be divided according to engine block, engine assembly, and engine testing.

Sales Agent

independent representative who contracts with a business to sell a product on a commission basis

Sales Force

employees who work full-time for a business and receive all of the benefits provided by the business such as retirement, vacation, medical, etc.

Small Business Administration (SBA)

the federal agency established to provide information and education services, loan guarantees, and counseling to promote small business development

Small Business Development Centers (SBDCs)

SBA-sponsored partnerships among state and local governments, educational centers and the private sector that provide assistance, counseling and training to prospective and existing business owners and their staffs

Service Corps of Retired Executives (SCORE)

a nationwide SBA-sponsored network of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and current small business owners and executives

Unlimited Liability

where there is no distinction between business and personal liability. A person's personal assets can be taken and used to pay off the business debts.



VIII. Additional Resources

Every day, there are new business opportunities and events that affect the business climate or business strategies. These print and online resources can keep you well-informed.

Websites

American Marketing Association

Industry reports, detailed dictionary of marketing terms, and educational resources
<http://www.marketingpower.com>

Association for Enterprise Opportunity (AEO)

The national association of organizations committed to microenterprise development
<http://www.microenterpriseworks.org>

Business Week magazine

<http://www.businessweek.com>

Citibank

Experienced small business advisors and custom financial resources for cash management, credit card processing, investment, and more; locate offices and learn about business strategies and programs
<http://www.citibank.com/us/citibusiness>

Dun & Bradstreet credit reporting company

<http://www.dnb.com> or 1-800-234-3867

eBay

Information about how to set up an online business
<http://www.ebay.com>

Entrepreneur magazine

Online resources, plus small-business blog
<http://www.entrepreneur.com>

Export-Import Bank of the United States

Provides information and training to promote international trade by small business
<http://www.exim.gov/products/special/smallbus.html>

Fast Company magazine and its Small Business Intelligence Center

Offers a variety of articles, resources, and tools
<http://www.fastcompany.com>

FORBES magazine

<http://www.forbes.com>

FORTUNE Small Business

<http://www.fortune.com/fsb>

INC Magazine

The daily resource for entrepreneurs
<http://www.inc.com>

Kauffman Foundation

Encourages entrepreneurship across America and improves the education of children and youth by focusing its operations and grantmaking on entrepreneurship and education
<http://www.kauffman.org>

The trusted guide for entrepreneurs on the path to high growth

<http://www.eventuring.org/>

National Association for the Self-Employed (NASE)

Supporting the needs of micro-business and the self-employed
<http://www.nase.org>

National Association of Women Business Owners (NAWBO)

Networking and support, education programs, and more
<http://www.nawbo.org>



National Business Association

A not-for-profit association, specifically designed and actively managed to assist the Self-Employed and Small Business Community in achieving their professional goals

<http://www.nationalbusiness.org>

Online Women's Business Center

Helps women to achieve their dreams and improve their communities by helping them start and run successful businesses

<http://www.onlinewbc.gov>

Service Corps of Retired Executives (SCORE)

An organization of volunteers who provide free online and in-person education for small businesses

<http://www.score.org>

Small Business Administration

Strives to maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

<http://www.sba.gov> and

<http://www.sba.gov/sbdc/>

Society for Hispanic Professionals

A unique source of opportunity in professional development, educational services, and personal fulfillment for Hispanics

<http://www.nshp.org>

U.S. Department of Labor

The Department of Labor fosters and promotes the welfare of the job seekers, wage earners, and retirees of the United States.

<http://www.dol.gov>

U.S. Patent and Trademark Office

Promotes the progress of science and the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries

<http://www.uspto.gov/>

Young Presidents Club

An educational organization aimed at providing better leadership through education and friendship

<http://www.ypo.org/learning.html>

The Wall Street Journal Center for Entrepreneurs

Contains current stories and extensive resources on trends that affect you and your business

<http://www.startupjournal.com/>

Publications

Minniti, Maria and William D. Bygrave. 2004.

National Entrepreneurship Assessment - United States of America, 2003 Executive Report. Babson College and the Kauffman Foundation.

Mandel, Stan, August 2004. "Educating the Successful Entrepreneur," ViewPoint.



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