

Simeen Gaidhar-Bhanji, Financial Expert Columnist



Simeen Gaidhar-Bhanji, CA is a Partner of Simeen Bhanji Chartered Accountant that offer a variety of services to corporations and individuals ranging from tax planning and consulting, compilation, reviews and audits of financial statements, corporate and personal tax returns, GST/PST services, and consulting for internal control, financing and tax.

Finding cash in the sofa cushions

In my seven years of public practice I have seen small businesses face many financing challenges as they grow and expand their operations. The following are common questions that I am often asked as it relates to financing.

How can I find the cash to expand my operations or invest in capital expenditures?

One creative way in which a company found “money in their pocket” involved a local business that decided it was time to expand to other provinces, but lacked the necessary cash flow to do so. The business owned fixed assets that possessed substantial value. After creating a comprehensive plan for the expansion and determining the profitability, the business decided that it was time to take the plunge.

With the assistance of a great lender, the company was able to engage in a transaction called a “sale-leaseback,” where they sold their assets to a buyer and then began leasing the assets back. This allowed the business to free up capital for the use of expansion.

The business then creatively used the funds from the original “sale-lease-back” to purchase further capital expenditures, these were later sold and leased back to the company, allowing them to double their necessary capital equipment for the expansion into other provinces and provided cash flow for establishment and operations. The interest that they were paying on the assets was fully deductible against their taxable income, resulting in great tax savings year to year.

Should I expand my operations or invest in capital expenditures to improve my operations?

Capital expenditures (such as computers and equipment) are common to all businesses as they add to the efficiency of the organization and are used in the process of generating income. There are many lenders that will provide financing for these capital expenditures and provide favourable interest rates, as they will use the assets for collateral against the loans. There is a potential for tax savings due to the interest paid on financing.

A common misconception that I have seen in practice is that many business owners ask whether to expand or invest in capital expenditures not knowing that by investing in fixed assets, you are complimenting your expansion plans. For example, a company that I have seen was excited by the idea of expanding international operations and thought that it was a lucrative business strategy. We crunched the numbers and arrived at the conclusion that if the company remained local, and invested

in high-tech equipment, they could almost triple production, which could then be shipped internationally and added more benefit to their bottom line than the international expansion strategy would have.

Should I finance or should I purchase?

On the flip side, a business owner indicated to me that they were completely against financing as it would incur unnecessary interest and they would end up paying more for the asset or operations than if they had not used credit at all.

This can be the situation in some cases, so we recommend that business owners perform a cost-benefit analysis to determine if the financing is worth paying the interest. It is vital to discuss your business plans with your accountant so you can assess your financial and cash position to determine your best course of action.

In some cases, the cash flow provided by financing is a necessity for the survival of a business. In other cases, the expansion plans can increase the bottom line significantly, negating the interest expense as a minimal cost in respect to the benefit.

Given the volatility of the current market, I advise my clients to ensure that they have a facility of credit available to them for use even if they do not require it for operations or expansion. There are many uncertainties in business that require the use of cash flow and the companies with money in the bank will have an easier time riding the ups and downs in the market.

The above information is for informational purposes only and therefore prior to making any decisions, please contact your accountant for advice.

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