

BOOKKEEPING TIPS

The twice monthly e-letter
for professional bookkeepers

The American Institute of Professional Bookkeepers

VOLUME 4: Issue 1

A handy guide to financing alternatives

Many professional bookkeepers must teach themselves many accounting, tax and financial skills because their employers assume that they have them. That is why our monthly member technical briefing *The General Ledger* newsletter (www.aipb.org/general_ledger.html), includes on-the-job training tips like this one.

When should your company or client use debt v. equity? Here are the choices:

Debt financing includes:

1. **A line of credit.** Your bank keeps a set amount of money available for your firm. You pay interest on the amount drawn and, usually, a “commitment fee” of 0.5%-1% on the total amount, which can be waived if you maintain a minimum balance. Lines of credit can be *nonbinding* (inexpensive but if your business slumps, there is no guarantee that the funds will be available), *committed* (guarantees availability but may entail a fee of 2% on the portion not borrowed), or *revolving* (requires annual review and renewal).
2. **A conventional bank loan for working capital.** The more business you do at the bank—company savings, payroll processing, and portfolio management—the easier it is to get this kind of loan.
3. **An SBA-guaranteed loan.** SBA has several programs to help small firms with unappealing balance sheets obtain working capital.
 - Basic SBA 7(A) Loan. Popular because the SBA guarantees the loan.
 - MicroLoan Program. Makes funds available to nonprofit intermediaries who, in turn, make loans of \$100-\$25,000 to eligible borrowers.
 - 502/504 Development Company Loans. Help finance fixed assets for small firms.
4. **Pay for goods after you sell them.** Pay a premium for goods, but have vendors finance the purchase.
5. **Finance equipment with a lease**—from the manufacturer or distributor.

Equity financing includes selling company stock, which gives up partial ownership but, unlike debt, does not have to be repaid, or reinvesting earnings.

BOOKKEEPING TIPS is a weekly e-letter published by The American Institute of Professional Bookkeepers (AIPB), Suite 500, 6001 Montrose Road, Rockville, MD 20852. Tel.: 800-622-0121, Fax: 800-541-0066, email: info@aipb.org.

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