

# **Six things your accountant should tell you but probably won't**

A Guest Article by Christopher Jenkins  
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### Six golden rules for a start-up

Starting a new business involves gathering information about a lot of new things very quickly and talking to as many people as possible, one of whom should be your accountant. But what will they tell you about launching your new venture?

Will it just be things like how to register for VAT and what the rules are for filing your accounts with Companies House? Or will you talk about what really matters?

Here are six golden rules: if you follow them, everything will turn out just fine!

#### 1. For the avoidance of doubt

Every entrepreneur wants to save costs, so employing expensive lawyers to create sophisticated shareholder agreements is not necessarily a priority. Besides, I hear you say, what is the point of going to court over something that probably won't be worth a lot of money for some years yet?

There is every good reason to involve lawyers now (for example to tie down your intellectual property, or perhaps to position it offshore). However, the key thing is to draw up a document that sets out clearly what you have agreed with each other. And this does not need to involve lawyers at all.

A one-pager, signed by each of the founders, is a nil-cost must-have document. Companies so often break up because of arguments between shareholders, and these often happen because of a simple misunderstanding: "You said you would do this ...", "I thought that ...." Write down what you have agreed and the benefits are obvious!

#### 2. Assess the total investment cost early on

"It will only cost £10k to create the website and then we will be up and running." How often have we heard that? As an attempt at a first year cash flow forecast, this is dangerous stuff!

Entrepreneurs almost always underestimate the total cost of getting a business to cash breakeven. Perhaps that is a blessing in disguise, since knowing the real cost would probably put most people off. Would 2012 have happened if a cost of £9.6 billion had been mentioned?

However, finding out that you have run out of cash half way through year one is not a great way to manage things; and yes, in some cases it would have been better if you had never started. Being diluted by a last-minute second-round

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investment; having to compromise the business model because you can't afford to build it properly; having heartrending arguments with your business partner or your other half at home: all these things create terrible damage and loss of value. Spend some money with good advisers, even if you are short of it.

### **3. Gather empirical evidence quickly**

How many times have we seen someone launch a business without doing the proper research? All the answers are out there: you just have to ask. Don't guess.

Don't be frightened of letting the cat out of the bag – letting people know what you are about to launch. The chances are that someone has already thought of your idea anyway. Talk to everyone you know and get their opinions, go and ask your potential customers whether they will accept the pricing you have planned, ask them whether they will want what you intend to offer. Once you have done so, go and do it again.

If the real world tells you to change your plan, be brave and do so. The key thing is to get to launch date as soon as possible with all the information you need to be able to take intelligent decisions. You can't do that in isolation.

### **4. Agree on your respective contributions**

Agree as early as you can between yourselves on what each of you is to contribute to the project. It may be cash, expertise or just a number of hours' hard work. For that you will have also agreed on the share of the spoils, usually denoted by what share of the equity each of you will take.

However, it will almost certainly turn out that one of you will have to contribute more than any of you expected. Either you must know beforehand how that extra contribution will be rewarded, or one of you is going to feel hard done by and mistrust and argument will set in.

### **5. Define your attitude to risk**

Decide what you are prepared to risk and what risks you are not prepared to take. Are you prepared to borrow or not? You must know now, before the pressure is on, whether you will be prepared to sign a guarantee and sign away your house. So often people swear they won't, but end up doing so.

If you share your life with someone, be brave and talk to them now about what commitments you might have to make that will affect them. If you go ahead

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and mortgage your house without a proper discussion at home, your home may not be the only thing you lose if the business goes down.

### **6. Define the buy-back price**

This is one useful tip that you may well look back on as the most valuable piece of advice you have ever been given. If you decide to raise investment from a "friends and family" round or a private investor early on in the process, agree with them a price at which you can buy back their shares.

Offer them a 300% return and reserve yourself the right to buy them back at any time in the first three or four years. Most investors would be delighted to make three times their money.

You will be surprised how much more than three times the original cost those shares will be worth if your business really does take off. It will be the best deal you have ever done.

*Christopher Jenkins*  
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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.