Financial Plan

The financial plan will help you (and any potential lender) estimate how much cash will be needed and when, in order to start and maintain a profitable business. You'll also be able to estimate how much profit you can generate, given the level of capital you are able (or willing) to invest.

The process of creating financial projections for your business's income, cash flow and financial position will force you to think through the financial transactions you plan to complete at a fairly high level of detail. Through this process, any discrepancies, gaps or unrealistic assumptions will more than likely come to light.

The information you will need to pull the financial projections together will, for the most part, already have been created when you completed the sales, operating and human resource plans in earlier sections. Since much of the information you'll be working with is subject to uncertainty, you'll be wise to create three sets of projections:

- a "pessimistic" scenario;
- a "most likely" scenario; and
- an "optimistic" scenario.

The change in profits and cash requirements from one scenario to another will indicate to you the degree of risk you're likely to be facing.

A more complete analysis of profitability and risk should be completed and a discounted cash flow should be prepared and included in your informal business plan.

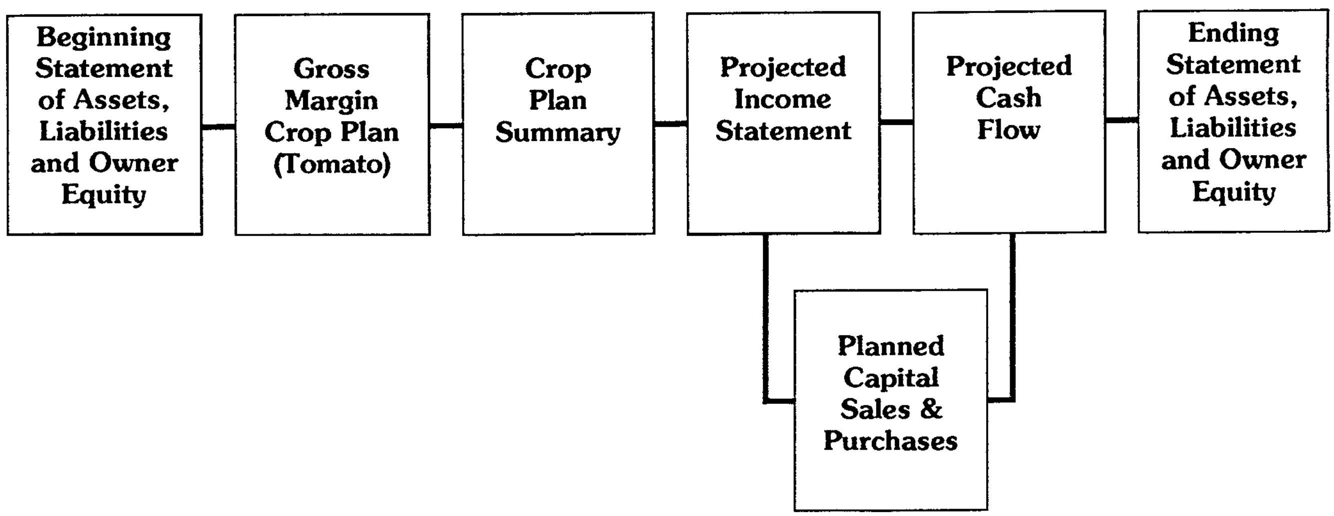
When preparing a financial plan for an existing business, statements for the past two to three years should be included.

When the business plan is being used to acquire financing, detailed lists of inventories, accounts receivable, accounts payable, insurance coverage, copies of legal agreements, orders, letters of intent, appraisals, personal net worth statements and references may also be required.

The British Columbia Ministry of Agriculture, Fisheries and Food has Planning Packages available to producers to assist them in their planning process. The following schematic on page 33 illustrates how the financial planning package can be used when developing a financial plan. Copies are available from the Farm Management Branch or your closest district office.

The example financial statements have been prepared using the BCMAFF Planning Package format. You may choose to follow this format or use one that you are more familiar with or one that your accountant or lender prefers.

Crop Planning Package



1. Income Statement

Prepare a schedule showing projected income from sales for the next three years. For an existing business, include information from the last two or three years. The following form shows an example for Central Valley Greenhouses. The numbers used have been intentionally altered so that they do not reflect an actual situation and therefore you should not use them in preparing your own budget.

The letters in the example are references to help explain how an income statement is prepared. Definitions for the financial terms are included in the glossary.

Inventory adjustments: Farm income is normally reported on a cash basis or when produce is sold. To accurately estimate expected income, unsold inventory and unused supplies are included in the income calculations thus showing accrued income. Farm expenses should also be adjusted to include expenses incurred but not paid. Also delete prepaid expenses.

Note: In our example the fiscal year starts in July, at the beginning of greenhouse construction; the low revenue from tomato sales in year I reflects the production during a five month harvesting period (February until June).

Income Statement Example

Period from July 1,19__ to June 30,19__

	Year One	Year Two	Year Three
Income (from sales)			
Tomato Sales	334,427	785,179	828,883
Dividends/rebates/other		18,959	19,841
a) **Total Income (from sales)**	332,427	804,138	848,724
Expenses			
Plant material	55,105	56,710	57,780
Fertilizer	8,750	17,000	17,000
Biologicals	9,250	18,000	18,000
Natural gas/electricity	82,700	120,000	120,000
Marketing/advertising	53,109	148,912	157,326
Repair & maintenance	14,000	13,200	15,600
Production labour	65,450	94,800	105,000
Crop materials	15,000	15,000	17,000
Automotive	5,800	9,000	9,000
CO_2 (summer)	6,000	13,800	13,800
Tissue analysis	3,200	6,400	6,400
Management salaries	51,300	64,800	64,800
Property taxes/ licences	4,000	4,000	5,000
Legal/accounting	6,700	3,960	4,800
Insurance	4,200	7,200	8,400
Travel	2,500	2,500	2,500
Operating interest	9,040	2,507	——
Term loan interest	37,005	67,803	57,122
Miscellaneous	7,200	6,000	6,000
Employee bonus	——	11,000	27,500
b) **Total Expenses**	440,309	682,592	713,028
c) **Excess Income Over Cash Expenses** (a-b)	(105,882)	121,546	135,696
d) **Less Depreciation**	35,125	70,250	70,250
e) **Net Farm Income** (c-d)	(141,007)	51,296	65,446

2. Cash Flow Summary

Accurate cash flow planning is essential. Inadequate working capital is a common cause of small business failure, especially during the first three to five years.

Cash Flow Chart Example

Projected Cash Flow from July 1, 19__ to June 30,19__

Quarter	Yr 1 Total	1	2	3	4	Yr 2 Total	1	2	3	4	Yr 3 Total	1	2	3	4
Cash Inflow ($,000)															
Sales	334			90	244	785	298	136	94	256	829	313	141	101	274
Dividends						19			19		20			20	
Total Cash Income	334			90	244	804	298	137	113	256	849	313	141	121	274
Accts Received															
Loans Received	762		427	335											
Capital Sales															
Personal Contributions	670	670													
Total Cash Inflow	1,766	670	427	435	244	804	298	137	113	256	849	313	141	121	274
Cash Outflow															
Cash Expenses	440	19	126	144	151	682	180	218	141	143	713	184	237	144	148
Term Loan Principal						20			60		120			120	
Capital Purchases	1,237	450	492	160	135										
Total Cash Outflow	1,677	469	618	304	286	742	180	218	201	143	833	184	237	264	148
Cash Surplus or Deficit		201	(191)	121	(42)		118	(81)	(88)	113		129	(96)	(143)	126)
Opening Cash Balance			201	10	131		89	207	126	38		151	280	184	41
Closing Balance		201	10	131	89		207	126	38	151		280	184	41	167

3. Projected Statement of Assets, Liabilities and Owner's Equity

Prepare a schedule showing a projected statement of assets and liabilities at the end of each year for the next three years. For an existing business, include information for the last two or three years. The example form illustrates how Central Valley Greenhouses completed this schedule.

The letters on the example are references to help explain how this statement is prepared. Definitions for the financial terms are included in the glossary.

The British Columbia Ministry of Agriculture, Fisheries and Food has Planning Packages available to producers to assist them with detailed instruction on how to prepare a farm balance sheet. Copies are available from the Farm Management Branch or your closest district office.

Statement of Assets, Liabilities and Owner's Equity Example

	Year one	Year two	Year three
Assets			
CURRENT ASSETS			
Cash	89,000	150,000	166,000
Accounts Receivable	6,000	14,000	15,000
Inventory	11,000	13,000	13,000
a) **Total Current Assets**	106,000	177,000	194,000
INTERMEDIATE ASSETS			
b) **Total intermediate**			
FIXED ASSETS			
Buildings and Equipment			
c) Cost	1,237,000	1,237,000	1,237,000
d) (Less depreciation)	35,000	100,375	170,625
e) Total Fixed (c-d)	1,201,875	1,313,625	1,066,375
f) **Total Assets** (a+b+e)	1,307,875	1,313,625	1,260,375
Liabilities and Equity			
CURRENT LIABILITIES			
Operating Loan	65,000		
Accounts Payable	23,000	14,000	13,000
g) **Total Current Liabilities**	88,000	14,000	13,000
INTERMEDIATE (1-10 YR)			
h) **Total Intermediate Liabilities**			
LONG TERM (> 10 YR)			
Mortgage	567,000	507,000	387,000
i) **Total Long Term Liabilities**	567,000	507,000	387,000
j) **Total Liabilities** (g+h+i)	655,000	521,000	400,000
k) **Owners' Equity** (f-j)	652,875	792,625	860,375
TOTAL LIABILITIES AND EQUITY (j+k)	1,302,875	1,313,625	1,260,375

4. Capital Sales, Purchases

Investors and lenders will require detailed information on the capital purchases that are anticipated during the planning period as well as information on how these assets are to be financed, and the expected useful life of the asset. This example is for a new business and the detailed information itemizing the cost of buildings and equipment has been included in the production schedule. An established or expanding business would detail just the changes anticipated.

Leasing assets and contracting services should be considered where they can be employed as a feasible way to increase profitability or reduce risk.

Capital Sales, Purchases Example

Planned Capital Sales and Purchases

Year One

Item	Sales Trade In	Purchases	Cash Down	Required Financing	Expected Life Yrs	C.C.A. Depreciation
Intermediate Assets						
Equipment (See production Section)		392,500	392,500		7-15 yrs	20-30%
Total Intermediate		392,500	392,500			
Long term Assets						
Land		225,000	125,000	100,000		
Buildings		620,000	153,000	467,000	20 yrs	10%
Total		**1,237,500**	**670,500**	**567,000**		

5. Loan summary

Information on existing loans is required for both existing loans and new loans. Loan information should outline the interest rate being paid, frequency of payments, security given, type of loan, i.e. amortized (where annual payments remain the same over the life of the loan) or non-amortized and outstanding balance, the amount of the loan for new loans and the outstanding balance, and financial institution for existing loans.

Loan Summary Example

Loan Schedule				Year One						
New Loans	Amount Owing	Interest Rate	Payment Frequency	Annual Payment	Principal	Interest	Source/ lender	Security Provided	Term Years	Amortized Non-Amortized (A)/(N)
Short Term Loans										
Operating Loan	195,000	14%	NA				Bank	Assignment of Receivables and Inventory		
Intermediate Loans										
Long term Loans										
Land	100,000	12.5	Annual	13,810	1,310	12,500	Bank	1st Mortgage	20	A
Buildings	467,000	12.5	Annual	70,407	12,032	58,375	Bank	1st Mortgage	15	A
Total	762,000			84,217	14,342	70,875				

6. Financial Performance Indicators

In this final section, calculate profit, risk, and growth ratios for your business. These ratios are calculated from information on the financial statements and provide guidelines to measure the progress of your business and alert you to problems.

Profitability ratios including Return on Equity and Return on Investment indicate how efficiently your capital is being used.

Risk ratios including the Current Ratio, the Debt Servicing Ratio, and Debt to Equity Ratio indicate the ability of your business to carry on when unexpected problems arise.

Growth ratios including the Sales Growth Ratio and the Equity Growth Ratio can be used to track financial progress.

Future ratios should be based on the "most likely" sales forecast. For more information and examples of how to calculate these ratios, refer to the British Columbia Ministry of Agriculture, Fisheries and Food Factsheet: 1990-07 *Financial Analysis Using Financial Ratios.*

The example form shows the ratios for Central Valley Greenhouses.

Financial Performance Indicators Example

Financial Ratios (Formula)	Year one	Year two	Year three	Bench-mark
Profitability Ratios				
Return on Equity (%) net income x 100 total equity	neg	6.5%	17.6%	> term deposits
Return on Investment (%) net income + paid interest x 100 total investment	neg	8.5%	8.5%	> interest on term loans
Risk Ratios				
Current Ratio current assets current liabilities	2	2.5	3.2	> 2
Debt to Equity Ratio total liabilities owners' equity	1.00	0.66	0.46	< or = to .7
Interest Coverage Ratio net income + interest interest expense	neg.	1.7	2.1	positive
Debt Servicing Ratio (%) annual payments x 100 total revenue	25.2%	10.5%	9.9%	< or = to 30%
Growth Ratios				
Sales Growth (%) sales increase x 100 previous sales	n/a	4.6%	6.7%	positive
Equity Growth (%) equity increase x 100 previous year's equity	n/a	21.4%	8.5%	positive

The Long-Range Plan

The long range plan (covering the next 5 to 10 years) helps to keep your business progressing toward goals which are consistent with your long-range goals and objectives. Answers to questions such as "where would I like the business to be in 10 years?" and "what will the business look like?" will form the backbone of your long-range plan. When you've defined the goals and objectives, you can then anticipate the major steps or milestones which must be reached over the next five years in order to achieve the longer term objectives.

Reaching these milestones will likely require additional management, production or marketing skills. You can begin to think about what these needs are now and formulate plans to acquire them. The sample form opposite shows what Central Valley Greenhouses plans for the future.

Long-Range Planning Example

Business Goals and Objectives

- Maintain above average yields through employee upgrading and the implementation of advanced growing techniques
- Achieve low staff turnover rate through effective personnel management and financial incentive program
- Control insect and disease problems without the use of pesticides on a consistent basis
- Expand tomato production area to 20,000m^2 in 5 to 8 years

Major Milestones

- Retire mortgage in less than 12 years
- Expand to 20,000 square metres in 5 years.

Additional Production, Financial and Labour Management, or Marketing Skills Required

- Develop labour and financial management skills
  Learn about new production techniques and technological advances by attending grower study sessions and national and international conference on greenhouse vegetable production
- Read horticultural periodicals and visit research facilities locally and abroad

Other Assistance (non financial) Required

- Quota for increased production as a result of expansion