

Preparing a Business Plan

A Guide for Agricultural Producers

Cow/Calf Ranch Example

Reprinted 1995



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

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PREFACE

Managing an agriculture business in the 1990s and beyond will be more complex with good planning skills becoming increasingly important. As farming becomes more capital intensive, margins narrow and the adoption of rapidly changing technology becomes the norm, planning techniques which are used in other businesses must be applied to agriculture. One of these planning techniques is preparing a formal business plan. A formal business plan integrates written goals with marketing, production and financial targets into a management strategy for the business along with identifying human resource requirements. Other factors such as increased environmental awareness and the globalization of agriculture emphasize the need for effective planning at the farm level.

The purpose of this publication is to provide farmers with business planning information and a format for developing a business plan for his or her farm business. While information and sample business plans are available for non-farm businesses, examples of business plans for farms are difficult to find. Each farm business is unique in terms of physical characteristics, income level and people involved in owning and operating the farm. This publication will provide a good starting point to assist farm managers to prepare formal business plans for their own operation.

Terry Peterson, Director
Farm Management Branch
Ministry of Agriculture and Fisheries
Vernon, British Columbia

INTRODUCTION

Preparing a Business Plan is a guide for producers in British Columbia. It will show you what a business plan looks like and can be a guide for you in preparing one.

The importance of planning in business and agriculture cannot be overemphasized. By developing a sound, carefully thought-out business plan, you take the most important step toward reaching your goal - a business that's alive and profitable.

How to Use This Manual

The manual gives you the necessary information to prepare your own business plan. A 150 head cow/calf ranch operation is used as an example. Throughout the manual, on the left page we describe what should go into each section of your business plan and this is followed immediately by an example. In a separate section at the back, we provide blank worksheets for you to use for your particular operation. Working through the manual will aid you in completing your own business plan. A glossary is included to explain the financial terms used in the manual.

In order to complete your own business plan, you will need to research and identify all those factors, unique to your commodity, which you feel are critical to the success of your venture. Our example gives you a framework; you must supply the details which apply to your own operation.

If You Need More Information

If you need more information, contact your nearest B.C. Ministry of Agriculture, Fisheries and Food (BCMAFF) district office, Ministry commodity specialists or the Farm Management Branch. BCMAFF provides a wide range of factsheets and worksheets such as the *Planning for Profit* gross margin budgets and planning package.

What Planning Can Do for You

Careful planning is one of the most vital parts of any successful business. Comprehensive plans are routinely prepared by larger urban firms as a normal business practice. They improve communication, general efficiency and decision making - important advantages for all businesses, including commercial farms.

Planning doesn't replace entrepreneurial skills but it can help avoid failures. It's a way to discover the problems and pitfalls you might run into before they happen, so you'll be able to make the right moves to avoid them. At the same time, you'll be better prepared to take advantage of new opportunities as they come along.

A written business plan puts you, the manager, in a better position to explain your goals: where the business is going, what needs to be done, and the role of investors, family members and employees in achieving these goals. This kind of communication helps create a common purpose and is essential to successful business ventures.

A business plan puts a lot of valuable information at your fingertips, ready to help you make those tough decisions. The plan will also help you monitor progress and cope with change and competition.

Because planning is so crucial to your operation, it's important as you go through the process to examine every aspect of your business carefully and honestly. Be realistic in assessing what you're capable of and the possibilities that exist for your business.

Some questions you should be asking yourself are:

- What exactly is the purpose of my business? (Be able to express it in one or two short sentences.)
- How good is my concept? Will I be able to market my products?
- What are my personal and business goals?
- Do I have the necessary skills and abilities?
- What are my approximate cash needs? Do I have the resources? If not, where could the funds come from?
- Am I willing to take time to plan my success?

Your business plan summarizes the past, current and future activities of your business. Its most important purpose is to help you be sure your business is carefully planned and makes sense, both from a financial and operating perspective. The business plan is your game plan. It sets objectives and guidelines on paper.

The business plan also acts as a standard against which to compare your actual results with your anticipated results. Regularly comparing your plans with actual results will allow you to identify problems quickly, often before they become unmanageable. Each year, update your plan using the informal business plan as a guide. That way, you'll always stay on track - and your business will be well on its way to success.

Your business plan will also help you explain your ideas to investors, bankers or government agencies for financing. Therefore it should be complete, organized and realistic.

The business plan should be prepared by the owner(s) and manager(s) of the firm. You may use outside professionals, such as lawyers and accountants, but the plan should be your own. You should be able to present it, summarize it, and answer questions about it.

Giving Your Plan the Right Look

Compiling your plan into a formal well organized document is important. It helps to clarify your thoughts so you can fill in the gaps. It shows that you've taken planning seriously.

The chances of your business plan being read and favourably received by potential lenders are vastly increased if you use an accepted style and format. A bundle of handwritten notes won't impress anyone.

Organize your material as clearly as possible so people who haven't helped write it can readily follow your logic.

Your formal business plan should:

- be double-spaced
- have adequate margins for adding notes
- include a title page giving business name, date and the period the plan covers
- have a detailed table of contents
- be comprehensive but not complicated
- avoid using jargon
- use lots of headings and subheadings throughout the document
- be simple and easy to read. Don't overwhelm your reader with too much detail. They'll ask for more information if they need it. If you have detailed information that you want to include, putting it in an appendix might work best.
- place the most essential information where it is easy to find - probably close to the front of the plan.

Asking an outsider you respect to read your final draft document can help identify any gaps or ways that your document could be improved. Doing this early in the process ensures you are focusing on the right information.

Extra touches that can help include:

- charts, tables, and resumes
- supplementary reports, studies, catalogues

But, whatever aids you use, be sure to include them in such a way that the result will look and read like a business plan - not a scrapbook. Much of this information can be included in appendices.

The Informal Business Plan

A business plan is a formal document. But to be able to write it, you need to gather information about a wide range of things such as day-to-day operations, the industry, new geographic markets and the cost of new assets. This working file of information will help when you're ready to develop your next formal business plan. We call this file the Informal Business Plan.

The information in the informal business plan should be arranged under the same headings as those used in the formal plan for easy reference. It could be kept in a large loose-leaf binder with dividers to separate the major parts of the plan.

What to Include

In this file, include newspaper clippings about your commodity; marketing tidbits you may have learned from employees, salespeople or other business people; informal projections; and new products and services you may be contemplating. At the front, have your business goals and objectives - both shorter and longer term - to keep you on track.

Your working file should include information you may not want to include in a formal plan that will be read by potential investors, lenders or employees. This might include your marketing strategies, competitor information, the amount of equity capital you are prepared to put into the business or past financial records.

This working file should always be kept in mind. Be aware of information gaps so that you can fill them in when the knowledge becomes available. Initial and date any notes you add.

COMPONENTS OF A BUSINESS PLAN

A complete business plan will include a summary section with a Title Page, Table of Contents, Summary and Business Profile, as well as sections outlining the Marketing, Production, Human Resources and Financial plans.

Your business plan may look different from the examples used in this book. You should emphasize those sections which best reflect the nature of your business.

Business Plan Outline

**Business Profile &
Summary**

Marketing Plan

**Human Resources
Plan**

Production Plan

Financial Plan

Title Page

The title page helps your business plan look professional. Remember that first impressions are very important, especially to readers, such as bankers, who see many, many plans.

As the example on the next page shows, include your firm's name, the period the plan covers, the date your plan was prepared as well as a contact person, phone number, and address.

***Title Page
Example***

**Business Plan
for 1992,1993,1994**

to
Operate

“The Davidson Ranch”

a 150 head Cow/Calf Ranch

Prepared by:

Sue and John Davidson

Date: Dec. __, 19__

Mailing Address:

100 Kamloops Ave.,

Kamloops, B.C.

Phone: (604) 555-1234

Table of Contents

The Table of Contents outlines the topics covered by the plan. It allows the reader to jump immediately to those sections which are of most interest.

Remember that people who may read your plan, such as perspective lenders, are busy people. The table of contents is a roadmap of where they can find more detail on each topic.

Table of Contents Example

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Business Profile and Summary

This section should attract the reader's interest, outlining the basics of your plan and encouraging him or her to read the remainder of the plan. The summary is provided to give them the basics.

As the example shows, the summary includes:

- the purpose and concept of the business
- business targets and how you intend to realize them.

If your plan is for establishing a ranch, the plans would include:

- required financing and sources.

You will probably find the summary easier to prepare after you have completed the rest of the plan.

The summary should be written with the reader and purpose of the plan in mind. A summary to be read by a manager of a credit institution may be different from one prepared for a potential equity investor.

This example, for establishing a new business, uses projected information. For existing firms, information on past sales, incomes and net worth should be included as well as projections.

Summary Example

Purpose of the plan

The plan outlines our proposal to operate a 150 head cow/calf ranch operation. This includes the production and selling of a calf crop through the B.C Livestock Producers Cooperative Association Auction Market and the proposal of utilizing alternative marketing methods.

Business Targets and Strategies

Marketing

- Investigate and try new methods of marketing
- Operate ranch recognizing concerns for environmental and land use issues
- Market livestock to obtain highest price possible for greatest return.

Production

- Increase weaning weights to 585 lbs. for steers and 545 for heifers
- Increase weaning percentage to 97%
- Increase hay yields to 3.5 tons/acre
- Keep informed as to environmental concerns and make appropriate changes.

Human Resources

- To create an integral role for the children in making farm decisions
- Maintain interest in farming by attending industry conferences and staying informed of current issues and concerns.

Financial

- Increase profits yearly by adopting marketing and production strategies
- Build up cash reserves for anticipated slow years and possible new tractor purchase.

Projected Income and Net Worth

Item	Year One	Year Two	Year Three
Revenue	86,600	89,900	92,400
Expenses	65,100	59,500	56,600
Net Income	21,500	30,400	35,800
Net Worth	734,000	732,000	736,000

Business Organization

This section summarizes basic information about your firm. As the example on the next page shows, you may not know some details yet depending on whether or not you are starting out.

The business profile will include:

- how your business is organized: sole proprietorship, partnership or corporation. If you haven't decided which is best for you, consult your accountant and lawyer. A review of two BCMAFF publications; *Taxation and the B.C. Farmer* and *Estate Planning for B.C. Farmers* will prepare you to discuss these issues with your advisors.
- required registrations and licences.
- management and advisors and their position or role. Include your banker, lawyer and accountant as advisors even if they don't have any ownership. Also include any friends or acquaintances who have business skills which you plan to use.

Business Profile Example

Business Name and Address:	The Davidson Ranch 100 Kamloops Ave. Kamloops B.C. xxx-xxx
Telephone:	(604) 555-1234
Type of Organization:	Partnership

Registrations and Licences

Type	Date Issued	Number
1. BCFA Farmer Identity Card	January 4, 19__	111111
2. W. C. B.	February 2, 19__	333333
3. G.S.T. Registration	January 3, 1991	444AAA555
4.		

Business Management

Name	Position	% of Business Owned
1. John Davidson	Owner/Marketing & Business Manager	50
2. Sue Davidson	Owner/Production & Facilities Manager	50

Business Advisors

Name and Address	Role	% of Business Owned
1. Mary Taylor, LL.B	Lawyer	-
2. Frank Wilson, CA	Accountant	-
3.		

The Marketing Plan

In this section you will describe, in general terms, the industry in which you operate. Then detailed information on marketing strategies will be provided. The cow/calf producers of B.C. are facing a perfectly competitive market and have no control over the prices set or the promotion of their products to the end consumers. Thus marketing strategies will include ideas on - how you plan to sell, when you plan to sell, who your buyers are and what criteria they base decisions on, and how your animals will be organized and treated prior to sales.

The marketing plan will review the four P's of marketing: product, price, place and promotion helping to ensure that you have a product that the market wants and one that you can sell at a profit.

You will want to consider and evaluate a number of alternatives in the informal plan before finalizing your marketing plan.

1. The Market

Prepare a schedule which shows the current size of the market. The sample form illustrates how this information can be summarized. Information can be gathered from a number of different sources including the following:

- industry and trade associations
- industry and trade journals
- Statistics Canada publications
- other producers
- discussions with potential customers
- discussions with potential suppliers
- B.C. government business and agriculture advisory services
- university libraries and business resource centres.

2. Industry and Market Trends

Identify major trends affecting the industry or business. This could include information on:

- consumer preferences.
- market sales and growth.
- industry structure and size of operations.
- market organization and pricing, delivery options.
- conventional payment arrangements.
- new technology and production practices.

You can find out about these trends by reading industry journals and discussing with the customers and suppliers what changes they think will occur. Once you have identified the major trends, you need to decide how your business will accommodate them. Our example shows the trends which apply to the Davidson Ranch.

Market Sales Example

Total Beef Cow numbers (in thousands)	Jan. 1 1988	Jan. 1 1989	Jan. 1 1990	Jan. 1 1991
B.C.	217	222	228	233
Canada	3,255	3,368	3,445	3,561
United States	33,112	33,125	33,200	33,620

Trends Example

Major Trends

1. B.C. has 6% of the total number of Beef Cows in Canada and the Canadian total is approximately 10% of that of the U.S.
2. An annual growth rate of 2% from the year previous was witnessed in B.C. and Canada on Jan. 1/91 with 1% seen in the U.S. The Jan. 1/90 growth rates were 3%, 2% and 1% respectively.
3. Cow calf producers are in a perfectly competitive market structure and thus are price takers.
4. Cyclical changes in cattle numbers in North America have occurred over the past 80 years commonly referred to as the "Cattle Cycle."
5. Animal condition, shrinkage and other factors at sale time can have an affect on the price or gross revenue.
6. Price swings for beef fluctuate with seasonal supply and demand differences within a given year.
7. Industry sells primarily through Live Auction Markets. Computer auctioning is beginning to be a feasible marketing alternative for some ranchers as is hedging , direct sales to feedlots and forward contracting.
8. Heavier weaned calves are being sent straight to finishing lots reducing the number of calves suitable for overwintering and summer grazing.
9. Many ranchers look to feeding their own calves through the winter as an option to fall sales.
10. A new grading system that identifies marbling in A grade beef will be introduced in spring 1992.
11. The industry is recognized for a quality product. Improved financial and production practices are being adopted by an increasing number of ranchers to to meet public demands for their products and to follow environmentally sound practices.



3. Political and Legal

Identifying legislation that affects how your products are produced and delivered allows you to react to controls that may impose additional cost or risk, or in fact may help you to reach your goals.

4. Customer Analysis and Response

In this section you will examine the major criteria you think your customers use to buy products you are selling.

Determining who your customers are and knowing their preferences is important as it allows you the opportunity to confirm your thoughts. You may find that your experience and preferences are not the same as those of your customers. It is very easy to transfer personal preferences to others. It is important to remember that the end consumer is the ultimate customer of beef. The feedlot buyers will inform the rancher as to the various market demands either directly or through his purchase selections. It is understanding your customers' preferences, not yours, that will contribute to the success of your business.

Setting targets and strategies will help to define your marketing plan.

Political and Legal Constraints Example

CONSTRAINT	RESPONSE
Rangeland use: regulations and conflicts	Follow regulations as to rangeland use, keep informed of other demands on crown land and become involved with planning committees
Pesticide applicators must be certified	Ensure employees and family members obtain certification
Animal rights and animal welfare activists	Be well informed of activist actions, uphold the highest standard of animal care, educate the public about the industry
Government agencies regulating environment standards and water usage	Maintain suitable environmental standards and water usage methods and codes of practice, keep informed of possible future changes in regulations
New beef grading system for Summer 1992	Raise calves which market from the feedlot as top graded animals with the appropriate fat and marbling

Customer Analysis and Response Example

Customer	Preferences	Strategies
Consumers	lean, tender, good tasting product	appropriate production practices, selection of proper breeds
Auctions buyers	healthy animal, uniform groups of cattle	pre-sale sorting and conditioning, after sale follow-up
Computer buyers	various requirements including accurate description of animals, establishing weigh locations, preferred preconditioned specifications	properly arrange lots before placing up for bid, precondition animals if required

5. Pricing

Prepare a price schedule for each of your products. Price setting is not within control of the individual rancher, however, knowing the historic prices is an important part of planning.

The sample form below provides an example of past prices witnessed at the B.C. Livestock Producers Cooperative Association auction at Kamloops. The actual prices received by the Davidson Ranch for the previous three years are marked on the graphs with an "x." (See next page.)

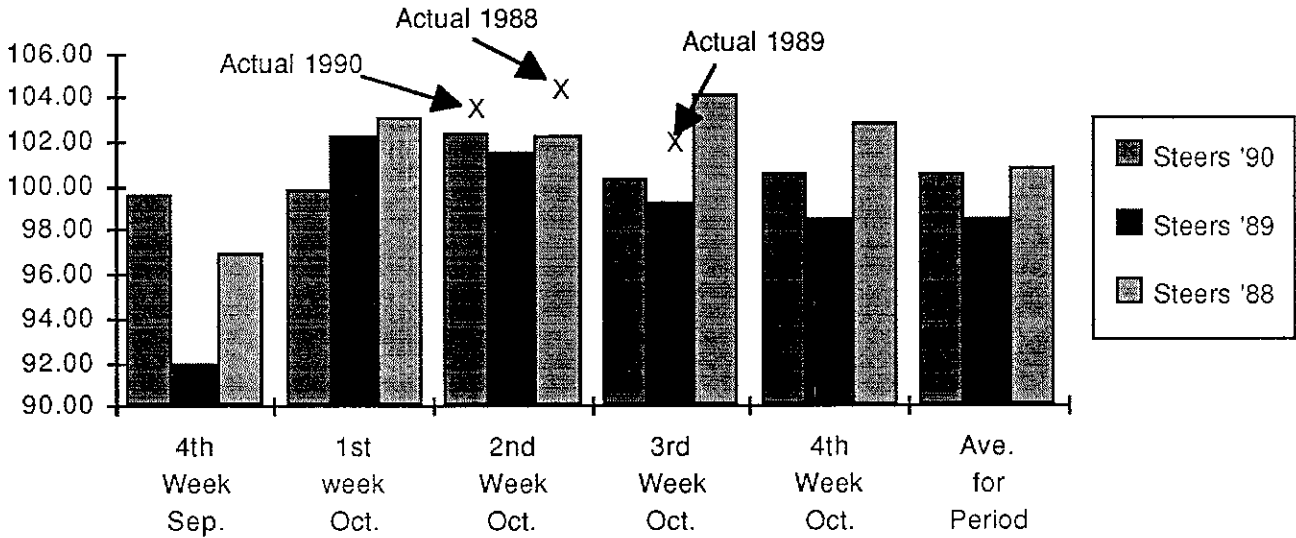
Pricing Example

Historic Prices

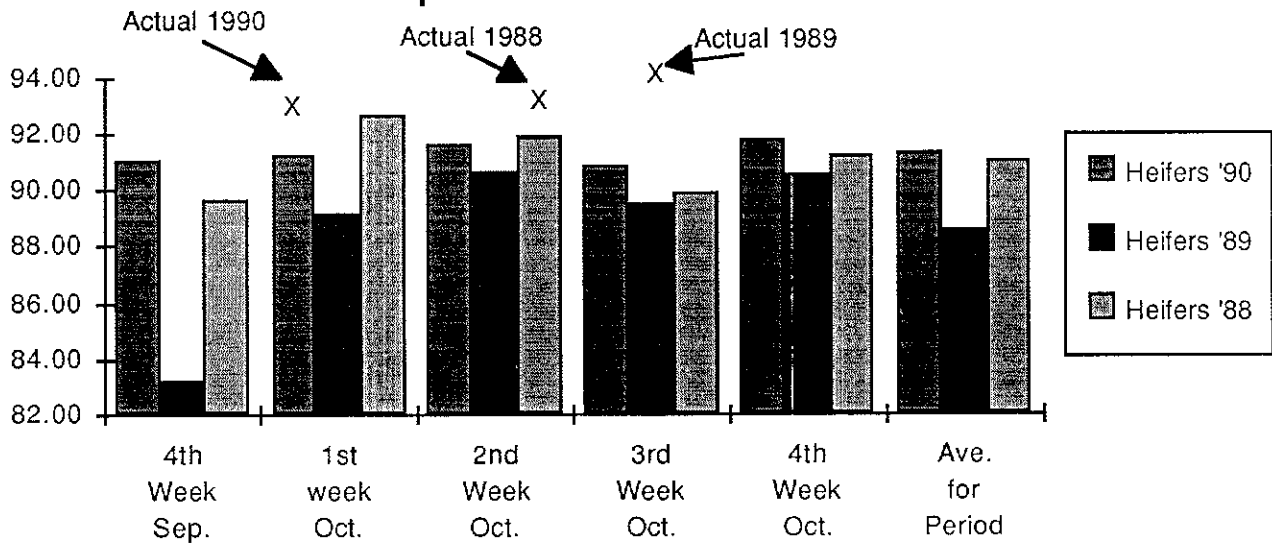
	Prices for 500-600 lb Calves					
	4th week September	1st week October	2nd week October	3rd week October	4th week October	Average for Period
Steers '90	99.60	99.85	102.38	100.32	100.56	100.61
Steers '89	91.89	102.17	101.44	99.17	98.48	98.50
Steers '88	96.93	103.05	102.30	104.12	102.80	100.76
Heifers '90	91.05	91.28	91.65	90.83	91.81	91.32
Heifers '89	83.17	89.09	90.63	89.49	90.54	88.58
Heifers '88	89.64	92.62	91.86	89.90	91.24	91.05

Pricing Example (continued)

Graph for Steer Prices



Graph for Heifer Prices



6. Marketing Strategies

This section is critically important. Adopting different marketing strategies is a method of controlling the pricing side of a ranch operation. Various options are available such as computer auctioning, forward contracting, hedging, pre-sorting of livestock and various others. Each rancher must pay special attention to all of the options available and appropriate for his own ranch.

The marketing strategies adopted by a ranch should address both the market trends and the response to customer preferences noted previously. Each producer should study and understand the market he is facing.

The sample form opposite summarizes the marketing strategies of the Davidson Ranch.

Marketing Strategies Example

Marketing Alternative	Advantages	Disadvantages	Objectives
Livestock Auction	familiarity and ease, secure cash flow, sell any size lot	commissions & charges, price uncertainty, animal stress & shrinkage	to market many different animals at one time
Pre-sorted Auction at yard	minimize shrinkage & stress, uniform lot so could attract higher price	few auctions have this option, organization required, sorting fee, commissions and charges	to market better animals in recognizable lots and minimize shrink losses capturing price premium
Computer Auctioning	only sell if the price is right, no pre-sale stress on animals	minimum size of lot requirements, commissions	to keep animals on feed at home until sale is completed

The Human Resources Plan

The human resources plan describes your expected staff requirements over the next two years. The areas of responsibilities, training and experience requirements for each staff position, organization chart as well as compensation and benefits should be summarized. Also, review the labour management programs that you plan to initiate and the goals you wish to achieve. The human resource plan is often included as a subsection in the production portion of a business plan. But, given the increasing importance of labour management you may choose to highlight your labour management plan as a separate section as we have in this example.

Human resource management requires thinking about how you will recruit, screen, motivate, train and discipline the staff you work with. The British Columbia Ministry of Agriculture, Fisheries and Food provides a publication on Farm Labour Management. Copies are available from the Farm Management Branch or your closest district office.

1. Employee Plan

As the form opposite shows, the Davidson Ranch is planning to have two fulltime staff members as well as casual part-time labour.

Note: if your business plan will be used to obtain outside financing, you should include resumes for the managers. An outside lender will base his or her decision on the management skills and experience available. The resumes should show the name, education, business experience in detail for the managers and skilled workers in your firm.

2. Organization Chart

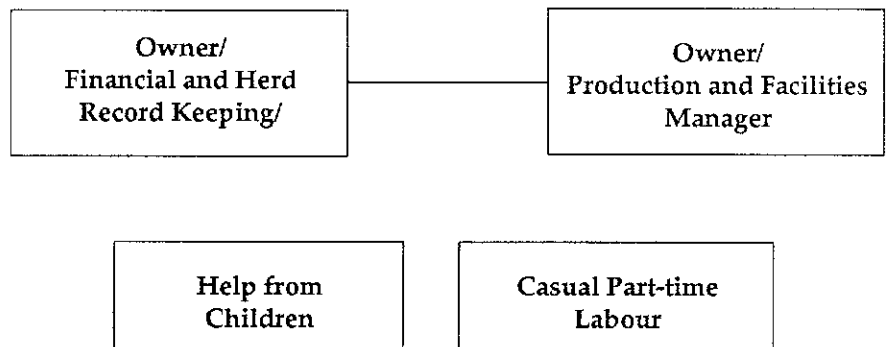
Once you have prepared your employee plan, complete an organizational chart as well to illustrate how your staff members are organized and to whom they report. This is important for two reasons. First, readers outside your firm will want to see evidence that you have thought through and organized the staff and management needs of your business. Second, your own employees will want to know how their firm is organized. The form opposite shows the Davidson Ranch's organization chart.

If major organizational changes are required because of changes in your operation during the period covered by the plan, these should be noted.

Employee Plan (Year 1 - 3) Example

Job Title	Functions
Owner/Bookkeeper	Cattle herd record keeping, financial bookkeeping, joint role in management decision making and goal setting
Owner/Production Manager	Crop planning, farming & farm safety, machinery maintenance, joint role in management decision making and goal setting
Children	Assist in ranch duties as required, learn all aspects of ranching techniques and decision making
Casual labour	Labour jobs as needed

Organization Chart Example





3. Compensation and Benefits

The final step in preparing your Human Resources Plan is to complete the compensation and benefits chart. The sample on the opposite page shows the Davidson Ranch example. There are a number of potential sources of information for items such as likely salary and wage levels. Statistics Canada produces a number of summary reports showing compensation by various groups. Or, local employers or government organizations (such as local employment offices) may be able to help you estimate the various compensation levels for which you will need to plan.

If you anticipate changes in wages and compensation during the period covered by the plan these should be noted.

4. Labour and Training Goals

Successful recruiting, hiring, training, motivation and discipline procedures are key to the growth and success of a business. Your labour plan should show how you plan to promote and maintain good labour relations, strong morale, and high quality, high output per worker.

Your labour targets and planned programs can be summarized on a form similar to the one for the Davidson Ranch.

Compensation and Benefits (Year 1-3) Example

Position	Salary and Benefits
Owner/Financial and bookkeeping	50% profit share (\$10,000 cash manager draw)
Owner/production and facilities	50% profit share (\$10,000 cash manager draw)
Children	chores and \$5.00/hr for structured work
Casual part-time workers	\$7.50/hr (Total: \$4,000)

Labour and Training Goals Example

Target	Barrier	Planned Response	Measurement
Efficient, correct and modern bookkeeping records	Knowledge of techniques, access of proper tools	Purchasing a computer and training on bookkeeping software	Organized and comprehensive books
Owner/Manager motivation and ability improvement	Routine, boredom and lack of knowledge in specific management areas	Utilize computer, attend industry conferences/workshops/seminars	Contentment, higher ability of managers
Training of children for future take-over of operations	Knowledge, ability and interest of children	Train children about farm practices and slowly make them an integral part of operation	Development of children into competent ranchers
Employee safety	Knowledge; working conditions	Training; employee manual; awareness and supervision	Accident free workplace

The Production Plan

1. Land, Buildings and Facilities

The sample form describes the Davidson Ranch production facilities. The buildings and facilities are detailed to illustrate how investment into production facilities has been divided amongst the various types. It should be remembered that each ranch may have or require different facilities than another. In the Davidson Ranch case, they have a hay shed, a machine shed, a barn, livestock corrals and fencing. Although not shown, a key part of your facilities planning should be a layout, drawn to scale. This will help ensure that you have chosen the right facility and will help you in estimating any facility improvements that may be required.

2. Equipment

The next sample form describes the Davidson Ranch equipment and fixture purchases. If you are establishing a new ranch, to prepare your equipment requirements you will need to think carefully about how you plan to grow your products. If possible, talk with people already in the same business to see what equipment they use. Or talk to suppliers of equipment and get their feedback on what you will require. When obtaining cost information, be sure that freight, installation, warranty service and taxes are included or excluded from the prices you are quoted. Also check on lead times for delivery once you have placed your order. Start researching your equipment well in advance of the time you will need it to allow enough time to select equipment and suppliers and to place orders.

Land, Buildings and Facilities Example

Location:	Kamloops	
Description:	Cow-calf ranch operation	
Size:	750 acres	
Owned or leased:	Owned	
Buildings and improvements:	Hay shed	\$15,000
	Machine shed	\$12,000
	Barn and corrals	\$7,290
	TOTAL	\$34,290
Land:	\$340,000	
House:	\$85,000	

Equipment Example

Description	Current Value
1. Irrigation Equipment	14,000
2. Tractors; 60hp & 40hp	29,500
3. Truck	9,600
4. Pickup Truck	8,000
5. Hay Wagon	1,800
6. Baler	7,000
7. Side delivery rake-pull type	2,000
8. Plow - 3 bottom	1,200
9. Drill - 8' pull type	1,000
10. Fertilizer spreader	500
11. Manure spreader	3,000
12. Cultivator	1,020
13. Miscellaneous (welder, tools, tack, livestock equipment)	4,000
TOTAL	\$82,620

3. Materials and Supplies

For a new operation, you will need to research your material requirements in much the same way as you have your equipment needs. To do this properly, you'll likely need to prepare detailed lists for the products you plan to grow or produce and then calculate the inputs you will need. Keep your supporting information on how you calculated this information on file in the informal business plan for future use. The sample form illustrates some of the material requirements for the Davidson Ranch. You'll also need to know which suppliers you plan to order from, the quantity and costs of an order and the order lead time if needed.

4. Production Targets

Production goals are an essential part to increasing the profitability of a ranch. In this section the targeted production figures of weaning weights and weaning percentage will be established. Since the success of attaining these production goals is subject to uncertainty, three sets of projections will be created. They will include:

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

The sample included shows the production targets that the Davidson Ranch will attempt to reach by following the production strategies of the following section.

Materials and Supplies Example

Description	Annual Requirement	Total Cost (\$)	Suppliers	Order Lead Time
Crop Supplies		5,000	Growers Co-op	pickup
Feed Supplement	12 tonnes	1,500	Top Feeds	2 weeks
Minerals and Livestock Supplies	-	1,000	Growers Co-op	
Fuel	10,000 litres	5,000	Esso	1-2 days

Target and Future Production Example

Production Forecasts for Next Three Years

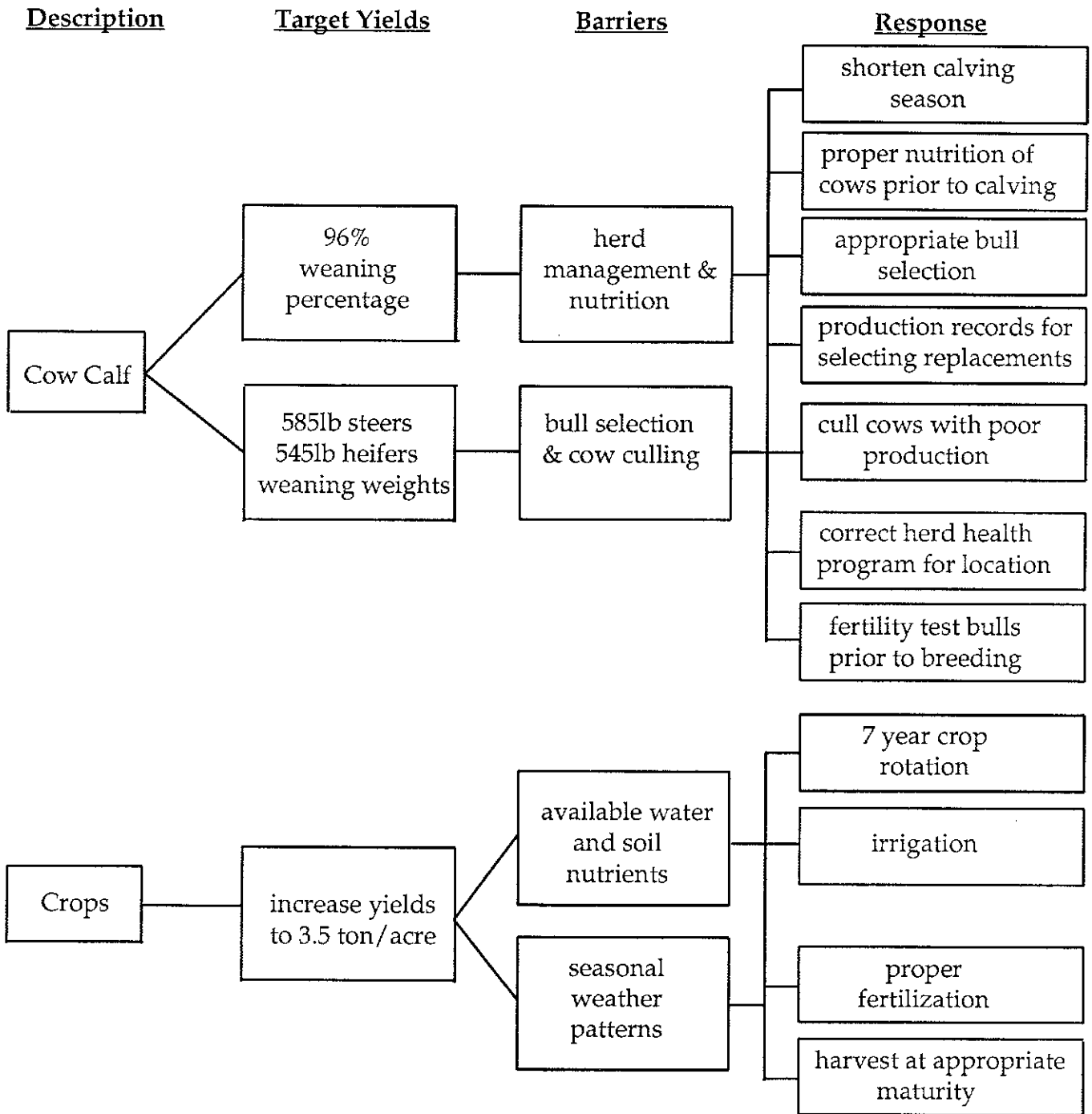
	Optimistic			Pessimistic			Most Likely		
	Yr 1	Yr 2	Yr 3	Yr 1	Yr 2	Yr 3	Yr 1	Yr 2	Yr 3
Weaning % (% weaned of cows overwintered)	95%	96%	97%	90%	91%	92%	94%	95%	96%
Steer Weights	575	585	600	550	565	575	565	575	585
Heifer Weights (lb of calf weaned)	535	545	550	515	525	530	525	530	540
Crop Yields (tons/acre)	3.2	3.4	3.6	2.8	3.0	3.2	3.0	3.2	3.4



5. Production Strategies

You will need to carefully research and thoroughly understand the product you are planning to produce, the production system you will be using as well as how to avoid potential problems. This information can then be used to develop plans to optimize yields, grades and profits through appropriate production and labour management activities. The following flow chart shows the strategies that the Davidson Ranch will use to reach their production goals. The most likely scenario values are the figures in this chart.

Production Strategies Example





5. Herd Management /Production Schedule

When new construction or major changes are planned a construction schedule outlining the necessary steps as well as expected starting and completion dates is useful. Attention should be given to permits and licencing, contracts, as well as delivery and manufacturing schedules. Also, when raw materials will have to be ordered and when production and sales are expected to start.

There was no scheduled construction for the Davidson Ranch. Due to the main emphasis of future changes being in herd management, a herd management and production schedule has been prepared. It outlines the timing of herd management practices that this ranch will follow.

Herd Management & Production Schedule Example

Herd Health Production Schedule												
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Increase nutrition to cows prior to calving	x	x										
Prepare for calving	x	x										
Calving Time		x	x	x								
Calf health care			x	x								
Animals are turned out to pasture				x								
Fertility test bulls					x	x						
Calves branded, castrated, dehorned, ear-tagged					x	x						
Vaccinate calves					x	x						
Vaccinate cows and replacements					x	x						
Cattle are turned out on range						x						
Cattle brought in from summer range										x		
Calves weaned & sold off or retained										x		
Cows are pregnancy tested and culled accordingly										x	x	
Begin animals on feed											x	x

The 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/or 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 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.



1. Income Statement

Prepare a schedule showing projected income from sales for the next three years. For an existing business, include information for the last two or three years. The following form shows an example for the Davidson Ranch. The "most likely" production target scenario has been used throughout the financial statements. 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. (*See page 49.*)

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 or delete prepaid expenses.

Income Statement Example

Period from	1989 to 1990 and projected 3 years				
	1989	1990	Year 1	Year 2	Year 3
Income					
Cow Calf	78,607	77,072	77,984	79,221	80,108
Crops	6,000	6,000	6,000	8,000	9,600
NTS/FII	2,700	2,700	2,700	2,700	2,700
a) Total Cash Income	87,307	85,772	86,684	89,921	92,408
Direct Expenses					
Crop Expenses	6,599	6,599	6,599	6,599	6,599
Livestock Expenses	8,030	8,030	8,030	8,030	8,030
Equip. Fuel & Repairs	10,200	10,200	10,200	10,200	10,200
Marketing & Trucking	2,250	2,250	2,250	2,250	2,250
NTS/FII	1,875	1,875	1,875	1,875	1,875
b) Total Direct Expenses	28,954	28,954	28,954	28,954	28,954
Indirect Expenses					
Building & Fence Repair	1,500	1,500	1,500	1,500	1,500
Land Taxes	1,000	1,000	1,000	1,000	1,000
Labour	4,000	4,000	4,000	4,000	4,000
Legal & Accounting	850	850	850	850	850
Insurance & Licences	2,400	2,400	2,400	2,400	2,400
Utilities, Misc.	2,850	2,850	2,850	2,850	2,850
Operating Interest	2,094	1,874	1,722	1,419	896
Term Loan Interest	10,035	9,311	8,586	7,862	7,137
c) Total Indirect Expense	24,729	23,785	22,908	21,881	20,633
d) TOTAL EXPENSES	53,683	52,739	51,862	50,835	49,587
e) NET RETURN	33,624	33,033	34,822	39,086	42,821
CASH EXPENSE (a-d)					
Depreciation	-12,100	-10,990	-9,970	-9,070	-8,240
Inventory Change		2,400		400	1,200
f) Total Adjustments	-12,100	-8,590	-9,970	-8,670	-7,040
g) NET FARM INCOME (e+f)	21,524	24,443	24,852	30,416	35,781



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.

When cash flow is tight, you may want to evaluate the benefits of leasing rather than purchasing capital assets.

Identify the cash inflows and outflows for your business operation over three years of operations. Remember that cash may not be received until one or more months after the sale is made. Similarly, some expenses, such as insurance, are paid all in one payment, creating peaks and valleys in cash flows. The surplus or deficit at the bottom of the statement will show the increase or decrease of any bank loan which you will require during the year. Quarterly summaries are often adequate but occasionally monthly summaries are required. The example form illustrates the inflows and outflows for the Davidson Ranch.

The letters in the example are references to help explain how a Cash Flow summary 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 cash flow projection. Copies are available from the Farm Management Branch or your closest district office.

Cash Flow Chart Example

	Yr 1				Yr 2				Yr 3						
	Total	1	2	3	4	Total	1	2	3	4	Total	1	2	3	4
Cash Inflow															
Sales	86684	2700	6000	77984	89921	86684	2700	6000	77984	89921	86684	2700	6000	77984	89921
Total Cash Income	86684	2700	6000	77984	89921	86684	2700	6000	77984	89921	86684	2700	6000	77984	89921
Loans Received															
Capital Sales															
Total Cash Inflow	86684	2700	6000	77984	89921	86684	2700	6000	77984	89921	86684	2700	6000	77984	89921
Cash Outflow															
Cash Expenses	51862	9582	16061	9634	16585	51862	9582	16061	9634	16585	51862	9582	16061	9634	16585
Term Loan Principle	6300				6300	6300				6300	6300				6300
Capital Purchases	24800	4950	9950	4950	4950	24800	4950	9950	4950	4950	24800	4950	9950	4950	4950
Living Expenses and Income Tax	82962	14532	26011	14584	27835	82962	14532	26011	14584	27835	82962	14532	26011	14584	27835
Total Cash Outflow	82962	14532	26011	14584	27835	82962	14532	26011	14584	27835	82962	14532	26011	14584	27835
Cash Surplus or Deficit	3722	(14532)	(23311)	(8584)	50149	3722	(14532)	(23311)	(8584)	50149	3722	(14532)	(23311)	(8584)	50149
Opening Cash Balance	9757	9757	(4775)	(28086)	(36670)	9757	9757	(4775)	(28086)	(36670)	9757	9757	(4775)	(28086)	(36670)
Closing Balance	13479	(4775)	(28086)	(36670)	13479	13479	(4775)	(28086)	(36670)	13479	13479	(4775)	(28086)	(36670)	13479



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 the Davidson Ranch completed this schedule.

The letters in 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

Assets 1989 1990 Year 1 Year 2 Year 3

CURRENT ASSETS

Cash	7,824	9,757	13,479	20,465	31,686
Crops	22,400	24,800	24,800	25,200	26,400
a) Total Current Assets	30,224	34,557	38,279	45,665	58,086

INTERMEDIATE ASSETS

Cow Herd	155,250	155,250	155,250	155,250	155,250
Equipment	91,800	82,620	74,360	66,920	60,230
Other	8,800	8,800	8,800	8,800	8,800
b) Total Intermediate Assets	255,850	246,670	238,410	230,970	224,280

FIXED ASSETS

Buildings	36,100	34,290	32,580	30,950	29,400
House	85,000	85,000	85,000	85,000	85,000
Land	340,000	340,000	340,000	340,000	340,000
c) Total Fixed Assets	461,100	459,290	457,580	455,950	454,400
d) Total Assets	747,174	740,517	734,269	732,585	736,766

Liabilities and Equity

CURRENT LIABILITIES

e) Total Current Liabilities	6,300	6,300	6,300	6,300	6,300
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INTERMEDIATE (1 - 10 YRS)

f) Total Intermediate	9,400	7,600	5,800	4,000	2,200
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LONG TERM (> 10 YRS)

g) Total Long Term	66,000	61,500	57,000	52,500	48,000
--------------------	--------	--------	--------	--------	--------

h) Total Liabilities	81,700	75,400	69,100	62,800	56,500
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i) Owner's Equity (h-d) 665,474 665,117 665,169 669,785 680,266

Total Liabilities and Equity (h+i) 747,174 740,517 734,269 732,585 736,766



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 expected useful life of the asset. This can be done for a new business where totalled values would be given, or for an established or expanding business which would detail just the changes anticipated. The Davidson Ranch is not anticipating any sales or purchases of capital.

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

Item	Sales Trade In	Purchases	Cash Down	Required Financing	Expected Life Yrs	C.C.A. (Depreciation)
Intermediate Assets						
Equipment						
Total Intermediate						
Long Term Assets						
Land						
Buildings						
Total						



5. Loan Summary

Information on 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						
	Amount Owing	Interest Rate	Payment Frequency	Annual Payment	Principal	Interest	Source/lender	Security Provided	Term Years	Amortized Non-Amortized (A)/(N)
Existing Loans										
Operating Loans		13.00%								
Intermediate Loans	9,400	Prime + 1.00%		2,928	1,800	1,128		Assignments on Inventory	10	A
Long term Loans	66,000	Prime + 1/2 %		11,958	4,500	7,458		1st Mortgage	20	A
Total	75,400			14,886	6,300	8,586				
New Loans										
Short Term Loans										
Operating Loan										
Intermediate Loans										
Long term Loans										
Land										
Buildings										
Total										

6. Financial Performance Indicators

In this final section, project 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 the Davidson Ranch.

Financial Performance Indicators Example

Financial Ratios (Formula)	1989	1990	Year 1	Year 2	Year 3	Bench-mark
Profitability Ratios						
Return on Equity (%) $\frac{\text{net income}}{\text{total equity}} \times 100$	3.2%	3.7%	3.7%	4.5%	5.3%	> term deposits
Return on Investment (%) $\frac{\text{net income} + \text{paid interest}}{\text{total investment}} \times 100$	14.6%	14.9%	15.2%	16.4%	17.4%	> interest on term loans
Risk Ratios						
Current Ratio $\frac{\text{current assets}}{\text{current liabilities}}$	4.8	5.5	6.1	7.2	9.2	> 2
Debt to Equity Ratio $\frac{\text{total liabilities}}{\text{owners' equity}}$	0.12	0.11	0.10	0.09	0.08	< or = to .18
Interest Coverage Ratio $\frac{\text{net income} + \text{interest}}{\text{interest expense}}$	1.2	1.3	1.3	1.3	1.4	positive
Debt Servicing Ratio (%) $\frac{\text{annual payments}}{\text{total revenue}} \times 100$	18.7%	18.2%	17.2%	15.7%	14.5%	< or = to 30%
Growth Ratios						
Sales Growth (%) $\frac{\text{sales increase}}{\text{previous sales}} \times 100$	n/a	-1.8%	1.1%	3.7%	2.8%	positive
Equity Growth (%) $\frac{\text{equity increase}}{\text{previous years equity}} \times 100$	n/a	-0.1%	0.0%	0.7%	1.6%	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 on the next page shows the plans the Davidson Ranch has for the future.

Long-Range Planning Example

Business Goals and Objectives

- Maintain the production goals set forth in this plan.
- Maintain a profitable business with a positive net income.
- Provide high quality beef and respond quickly to market changes.
- Maintain high quality of life.

Major Milestones

- Train children in management and involve in management decisions.
- Formalize plan for children to take over farm if desired undertaking estate planning as required.
- Retire mortgage and turn operation over to children or sell within 15 years.

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

- Develop labour management and financial management skills and pass on to children.
- Attend workshops and conferences to improve knowledge on various aspects of ranching.

Other Assistance (non financial) required

GLOSSARY OF BUSINESS TERMS

ACCOUNTS PAYABLE

An amount owing to a creditor (i.e. an amount owed someone else), usually arising from the purchase of goods or services, that is due to be paid within a 12 month period or within the normal operating cycle (where the cycle is longer than a year). Examples include amounts owed for property taxes and interest and amounts owed to a supplier on account for fertilizer, fuel, etc. These amounts owing are often relatively short term, where payment is normally required in full within a one or two month period.

ACCOUNTS RECEIVABLE

An amount owed to the business usually arising from the sale of goods or services. (Examples include uncollected receipts for grain and livestock sales and custom work).

ACCRUAL BASIS OF ACCOUNTING/REPORTING

A method of accounting/reporting by which revenue and expenses are recorded in the period when they are earned or incurred regardless of when the cash transaction took place. Unlike the cash basis of accounting, revenues and expenses include changes to inventory, accounts receivable and accounts payable.

AMORTIZATION

This term refers to the scheduled or systematic reduction of a balance in an account over an appropriate period. Most often this term applies to long-term liabilities and intangible assets. (See also the definition of depreciation and depletion).

ASSETS

Tangible and intangible items of value owned by the business. (Examples include cash, accounts receivable, inventory, productive assets, equipment, buildings and land).

CURRENT ASSETS

Unrestricted cash and other assets that in the normal course of operations are expected to be converted into cash or consumed in the production process within one year or within the normal operating cycle (where the cycle is longer than a year). (Examples include cash, accounts receivable, feed and other supply inventories, market livestock, produce and prepaid expenses).

FIXED ASSETS

Tangible assets which are usually involved in the production of goods and services rather than held for resale. These assets represent relatively long-term investments that are used for more than one year. (Examples include land, buildings and equipment).

INTANGIBLE ASSETS

Assets that lack physical substance but like all other assets benefit or add value to the business. (Examples include goodwill, trademarks, leaseholds, mineral rights and quotas).

LIQUID ASSETS

Cash and temporary investments that can be readily converted into cash without disrupting normal operations.

LONG-TERM ASSETS

Assets that have a useful life greater than one year. These assets are not usually purchased for resale, but are to be used over time to produce saleable products. Long-term assets are also referred to as capital assets. (Examples include land, buildings, equipment, productive assets such as a breeding herd, and investments).

BALANCE SHEET

A statement of financial position showing the assets, liabilities and equity of a business at a specific date.

CAPITAL

The total assets available to a business.

CAPITAL GAIN

This term is used for income tax purposes to define, in most cases, the amount of proceeds on the disposition of a long-term asset in excess of the asset's original cost.

CAPITAL LOSS

This term is used for income tax purposes to define, in most cases, the deficiency between the amount of the proceeds on the disposition of a long-term, non-depreciable asset and its original cost.

CASH BASIS OF ACCOUNTING/REPORTING

A method of accounting/reporting by which revenues and expenses are recorded when cash is actually received or paid regardless of when the agreement to sell or purchase may have taken place. Unlike the accrual basis of accounting, revenues and expenses do not include changes to inventory, accounts receivable or accounts payable.

CHANGE IN INVENTORY

The term used on the Statement of Income to define the adjustment to the inventory account on the balance sheet that reflects the amount of the increase or decrease in the total value of inventory from one reporting period to another.

CONTINGENT LIABILITY

A potential liability that is, at the date of reporting, not certain as to amount or likelihood of existence. The realization of these potential liabilities will depend upon a future event occurring or, alternatively, depend upon a future event failing to occur. (An example would include the instance where a business guarantees the loan of a third party. This guarantee would be considered a contingent liability to the guarantor).

COST

This term refers to the purchase price for goods or services consumed in the business.


FIXED COST

Costs that remain relatively unchanged regardless of the volume of production or activity within a range of volume. (Examples include building insurance and property taxes).

VARIABLE COST

Costs that vary directly with the volume of production or activity. If no production or activity takes place, variable costs are zero. (Examples include fertilizer, feed and supplements).

CURRENT DEBT

A debt, or a portion of a debt, due within the current year or within the normal operating cycle (where the cycle is longer than a year). (An example includes the portion of long-term debt [principal only] due in the upcoming fiscal period).

LONG-TERM DEBT

Debts with a maturity date beyond one year from the date of the balance sheet or beyond the normal operating cycle (where the cycle is longer than one year). Long-term debt excludes that portion of the debt principal due within one year.

DEBT CAPITAL

The total financial resources provided by lenders (usually restricted to long-term debt) for the use of the business.

DEFERRED INCOME TAXES

The accumulated amount by which income tax expenses reported on the statement of income has been increased or decreased as a result of timing differences. Timing differences referred to here are the difference between accounting and taxable income that arises as a result of including revenues or expenses in one period in determining net income for accounting purposes, but including them in another period for determining taxable income. (For example, reporting depreciation on the financial statements at an amount different than the capital cost allowance recorded in the tax return would give rise to deferred income taxes).

DEPRECIATION

A non-cash expense charged periodically to allocate or distribute the cost of a long-term asset over its estimated useful life.

DIVIDENDS

An amount of retained earnings declared by the board of directors of a corporation for distribution to its shareholders in proportion to their relative shareholdings.



EQUITY CAPITAL

The interest of the owner in the assets of a business. This interest is represented by the excess of the total assets over the total liabilities.

EXPENSE

A cost generally identifiable with the business operations during a fiscal period or with revenues earned during that period. (Examples include regular operating costs such as interest and wages as well as depreciation and amortization).

FINANCIAL ACCOUNTING

The development of accounting information in conformity with established accounting principles in order to summarize the financial position and operating results of a business.

FISCAL YEAR

A one year period of time for which financial statements are usually prepared for a business.

GAIN

An increase in equity as a result of a transaction other than an increase that results from revenues or equity contributions. For example, an amount equal to the excess of the sale proceeds over the net book value of a fixed asset would be termed a gain.

GOING CONCERN CONCEPT

The concept that a business will continue in operation indefinitely and that assets are therefore valued on the basis of their continued use as distinct from their market or liquidation value.

GOODWILL

Goodwill is an intangible asset, the value of which is related to the value of a business in excess of the sum of the fair market value of the net assets. Goodwill is generated from such things as high community standing, good strategic location, superior management, etc.

GROSS MARGIN

Gross margin is the excess of total revenue minus cost of goods sold. Indicates funds available to cover unallocated fixed costs, returns to operator and family labour and returns to owners'/shareholders' equity. The term gross margin is often used synonymously with the term gross profit.

HISTORICAL COST

The total expenditures made by the business to acquire title to or develop an asset (including any installation or alteration costs incurred to put the asset into service).

INVENTORY

Items of tangible property which are held for sale in the ordinary course of business, or are in the process of production for such sale, or are to be directly consumed in the production of goods or services. (Examples include feed, seed, farm supplies and market livestock).


LEASE

An agreement whereby the owner of an asset (lessor) conveys the right to use this asset to someone else (lessee) usually for a specified period of time, in return for some form of consideration.

CAPITAL LEASE

A lease that, from the point of view of the lessee, transfers substantially all of the benefits and risks incident to ownership of property to the lessee. The term of the lease is usually in excess of one year and the lease contract may provide for transfer of ownership of the asset at the end of the lease term.

OPERATING LEASE

A lease in which the lessor retains substantially all the benefits and risks incidental to ownership of the asset.

LEVERAGE

The relationship between the total liabilities and the equity of a business. The higher the ratio of debt to equity, the greater is the leverage.

LIABILITIES

Liabilities are obligations of a business arising from past transactions that are to be paid in the future (including the delivery of goods and services in the future for which consideration has already been received). Examples include accounts payable, long-term debt, etc.

CURRENT LIABILITIES

Liabilities that will be payable within the current year or within the normal operating cycle (where the cycle is longer than a year). (Examples include accounts and notes payable within the year, and the principal portion of long-term debt due within one year).

LONG-TERM LIABILITIES

Liabilities with a maturity beyond one year from the date of the balance sheet, or beyond the normal operating cycle (where the cycle is longer than one year). Long-term liabilities exclude that portion of the debt principal and any other liabilities due within one year. (Examples include mortgages and equipment loans).

LIQUIDITY

Liquidity is often measured by the ability of the business to convert assets into cash or to obtain cash to meet short term liabilities and other commitments.

DEMAND LOAN

A debt for which payment in full could be demanded at any time upon lender's notification pursuant to the terms of the loan contract.

OPERATING LOAN

Cash advanced to a business to pay for operating costs. These loans usually provide for repayment within one year of the normal operating cycle (where the cycle is longer than a year). (Examples include loans to purchase feeder livestock and supplies).

MARKET VALUE

Market value is the value which one expects a willing buyer will pay a willing seller for an asset given an appropriate length of time to sell the asset (including the costs of disposition). This value is often based upon comparison to the latest sales date of similar assets under similar selling conditions.

MORTGAGE

A conveyance of a legal interest in property from one person to another as a security for the payment of a debt or the discharge of some other obligation. The security is redeemable on the payment or discharge of such debt or obligation.

NET BOOK VALUE

The value of an asset that is determined by subtracting the accumulated depreciation (or amortization) from the historical cost of the asset.

NET INCOME/LOSS

The excess of revenues over expenses for a given period of time. If expenses exceed revenue, the difference is called net loss.

NET WORTH

The difference between the market value of the assets and the market value of the liabilities. Net worth represents an estimate of what cash the owner would receive if all the owner's assets were disposed of and all the liabilities were discharged.

NET WORTH STATEMENT

A statement summarizing the net worth of an individual and the individual's business at a point in time. Assets are valued at estimated fair market value and liabilities are subtracted from the asset values to provide an estimate of net worth.

NOTE PAYABLE

A liability in the form of a promissory note which is a formal written promise by the borrower to pay a certain amount on demand or at a certain future date. Generally used to distinguish certain liabilities such as a note payable from other liabilities such as accounts payable.

NOTE RECEIVABLE

An asset in the form of a promissory note which is a formal written promise to be paid a certain amount on demand or at a certain future date. Generally used to distinguish certain assets such as a promissory note from other assets such as accounts receivable.

OWNER'S EQUITY

This term refers to the ownership interest in the business. Owner's equity equals assets minus liabilities and could be considered to be the owner's claim against the assets of the business. Owner's equity is increased by the owner's net contribution of assets to the business and the accumulated net income of the business.


PREPAID EXPENSE

An operating expenditure other than an outlay for inventory which is expected to yield its benefits in the future and in the meantime is carried on the balance sheet as an asset to be charged to expenses when utilized. (Examples include the unexpired portion of building insurance premiums and property taxes).

PROJECTED CASH FLOW STATEMENT

This statement shows expected future sources of cash from operations, capital sales, owner contribution and borrowing. It also shows anticipated cash utilization for business expenses, loan payments, capital purchases and owner withdrawals from the business.

SHARE CAPITAL

The ownership interest in an incorporated company that is represented by the shares of that corporation.

SHAREHOLDERS' EQUITY

The excess of the net book value of the assets of an incorporated company over the value of its liabilities.

STATEMENT OF CHANGES IN FINANCIAL POSITION

This statement shows sources of cash from business operations, asset sales, owner contributions and borrowings over the past fiscal year. It also shows cash utilization for business operations, loan payments, asset purchases and owner withdrawals from the business over the same period.

STATEMENT OF INCOME

A financial statement summarizing the revenue, the expenses, and indicating the net income (or net loss) for a defined accounting period, usually the fiscal year of a business.

BUSINESS PLAN WORKSHEETS

Title Page

Business Plan

for 19__ , __ , __

to

Prepared by:

Business Profile and Summary

Purpose of the plan

Required Financing and Sources

Business Activities and Targets

Marketing

- ---
- ---
- ---

Production

- ---
- ---
- ---

Labour

- ---
- ---
- ---

Financial

- ---
- ---
- ---

Projected Income and Net Worth

Item	Year One	Year Two	Year Three
Revenue			
Net Income			
Net Worth			

Business Organization

Business Name and Address: _____ _____ _____
Telephone: _____
Type of Organization: _____

Registrations and Licences

Type	Date Issued	Number

Business Management

Name	Position	% of Business Owned

Business Advisors

Name and Address	Role	% of Business Owned

**Political and
Legal Constraints**

Constraint	Response

**Customer Analysis
and Response**

Customer	Targets	Barriers	Strategies



**Employee Plan
(Year 1 - 3)**

Job Title	Functions



Organization Chart

Customer Analysis and Response

Target and Future Sales

Sales Forecasts for Next Three Years (\$000)									
Customer	Optimistic			Pessimistic			Most Likely		
	Yr 1	Yr 2	Yr 3	Yr 1	Yr 2	Yr 3	Yr 1	Yr 2	Yr 3

Pricing

Historic Prices				
Product	19__	19__	19__	19__

Product _____

Customer	Price	Direct cost	Gross margin per _____	Gross margin per _____

Product _____

Customer	Price	Direct cost	Gross margin per _____	Gross margin per _____

Product _____

Customer	Price	Direct cost	Gross margin per _____	Gross margin per _____

Compensation and Benefits (Year 1-3)

Position	Salary and Benefits

Labour and Training Goals

Target	Barrier	Planned Response	Measurement

Materials and Supplies

Description	Annual Requirement	Total Cost (\$)	Supplier	Order Lead Time

Production Strategies

<u>Description</u>	<u>Target Yields</u>	<u>Barriers</u>	<u>Response</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Income Statement

Period from _____, 19__ to _____, 19__

	Year One	Year Two	Year Three
Income (from sales)			
Sales	_____	_____	_____
Dividends	_____	_____	_____
Other	_____	_____	_____
a) Total Income (from sales)			
Expenses			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
b) Total Expenses	_____	_____	_____
c) Excess Income Over Cash Expenses (a-b)	_____	_____	_____
d) Less Depreciation	_____	_____	_____
e) Net Farm Income (c-d)	_____	_____	_____

Cash Flow Chart

Projected Cash Flow from _____, to _____, 19____

Quarter	Yr 1 Total				Yr 2 Total				Yr 3 Total			
	1	2	3	4	1	2	3	4	1	2	3	4
Cash Inflow (\$,000)												
Sales												
Dividends												
Total Cash Income												
Accts Received												
Loans Received												
Capital Sales												
Personal Contributions												
Total Cash Inflow												
Cash Outflow												
Cash Expenses												
Firm Loan Principal												
Capital Purchases												
Total Cash Outflow												
Cash Surplus or Deficit												
Opening Cash Balance												
Closing Balance												

Statement of Assets, Liabilities and Owner's Equity

Year one Year two Year three

Assets

CURRENT ASSETS

Cash	_____	_____	_____
Accounts Receivable	_____	_____	_____
Inventory	_____	_____	_____
a) Total Current Assets			

INTERMEDIATE ASSETS

b) Total intermediate			
------------------------------	--	--	--

FIXED ASSETS

Buildings and Equipment			
c) Cost	_____	_____	_____
d) (Less depreciation)			
e) Total Fixed (c-d)			

f) Total Assets (a+b+e)			
-----------------------------------	--	--	--

Liabilities and Equity

CURRENT LIABILITIES

Operating Loan	_____	_____	_____
Accounts Payable	_____	_____	_____
g) Total Current Liabilities			

INTERMEDIATE (1-10 YR)

h) Total Intermediate Liabilities			
--	--	--	--

LONG TERM (> 10 YR)

Mortgage			
i) Total Long Term Liabilities			

j) Total Liabilities (g+h+i)			
-------------------------------------	--	--	--

k) **Owners' Equity (f-g)** _____

TOTAL LIABILITIES AND EQUITY _____
(j+k)

Capital Sales, Purchases

Planned Capital Sales and Purchases

Year One

Item	Sales Trade In	Purchases	Cash Down	Required Financing	Expected Life Yrs	Maximum C.C.A. (Depreciation)
Intermediate Assets						
Equipment (See production Section)	_____	_____	_____	_____	_____	_____
Total Intermediate						
Long term Assets						
Land	_____	_____	_____	_____	_____	_____
Buildings	_____	_____	_____	_____	_____	_____
Total Long Term Assets						
Total Fixed Assets						

Loan Summary

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	---	---	---	---	---	---	---	---	---	---
Intermediate Loans	---	---	---	---	---	---	---	---	---	---
Long term Loans										
Land	---	---	---	---	---	---	---	---	---	---
Buildings	---	---	---	---	---	---	---	---	---	---
Total	---	---	---	---	---	---	---	---	---	---

Financial Performance Indicators

Financial Ratios (Formula)	Year one	Year two	Year three	Bench-mark
Profitability Ratios				
Return on Equity (%) $\frac{\text{net income}}{\text{total equity}} \times 100$	_____	_____	_____	_____
Return on Investment (%) $\frac{\text{net income} + \text{paid interest}}{\text{total investment}} \times 100$	_____	_____	_____	_____
Risk Ratios				
Current Ratio $\frac{\text{current assets}}{\text{current liabilities}}$	_____	_____	_____	_____
Debt to Equity Ratio $\frac{\text{total liabilities}}{\text{owners' equity}}$	_____	_____	_____	_____
Interest Coverage Ratio $\frac{\text{net income} + \text{interest}}{\text{interest expense}}$	_____	_____	_____	_____
Debt Servicing Ratio (%) $\frac{\text{annual payments}}{\text{total revenue}} \times 100$	_____	_____	_____	_____
Growth Ratios				
Sales Growth (%) $\frac{\text{sales increase}}{\text{previous sales}} \times 100$	_____	_____	_____	_____
Equity Growth (%) $\frac{\text{equity increase}}{\text{previous year's equity}} \times 100$	_____	_____	_____	_____

Long-Range Planning

Business Goals and Objectives
Major Milestones
Additional Production, Financial and Labour Management, or Marketing Skills Required
Other Assistance (non financial) Required

Preparing a Business Plan Evaluation

Please send us your comments and help us serve you better.

We would like to know what you think of this publication...what's good and what could be improved, and how. Please take a few minutes to give us your opinions and ideas. Please return the completed evaluation form to:

Extension Systems Branch, B.C. Ministry of Agriculture, Fisheries and Food
808 Douglas Street, Victoria, British Columbia V8W 2Z7

Question	Response										
1) You are: (please check appropriate box)	<input type="checkbox"/> Grower; major commodity: _____ <input type="checkbox"/> Industry <input type="checkbox"/> Government <input type="checkbox"/> Other: _____										
2) Overall, how do you rate this material? (please rate on a scale of one to five with 1 being poor and 5 being excellent)	<table style="width:100%; border:none;"> <tr> <td style="width:20%; text-align:left;">Poor</td> <td colspan="3"></td> <td style="width:20%; text-align:right;">Excellent</td> </tr> <tr> <td style="text-align:center;">1</td> <td style="text-align:center;">2</td> <td style="text-align:center;">3</td> <td style="text-align:center;">4</td> <td style="text-align:center;">5</td> </tr> </table>	Poor				Excellent	1	2	3	4	5
Poor				Excellent							
1	2	3	4	5							
3) How did you find out about this publication?											
4) Is the information presented relevant to your needs?	<table style="width:100%; border:none;"> <tr> <td style="width:40%; text-align:left;">Not Relevant</td> <td colspan="3"></td> <td style="width:20%; text-align:right;">Very Relevant</td> </tr> <tr> <td style="text-align:center;">1</td> <td style="text-align:center;">2</td> <td style="text-align:center;">3</td> <td style="text-align:center;">4</td> <td style="text-align:center;">5</td> </tr> </table>	Not Relevant				Very Relevant	1	2	3	4	5
Not Relevant				Very Relevant							
1	2	3	4	5							
5) Writing style	<table style="width:100%; border:none;"> <tr> <td style="width:40%; text-align:left;">Simple & Easy</td> <td colspan="3"></td> <td style="width:20%; text-align:right;">Difficult & Too Technical</td> </tr> <tr> <td style="text-align:center;">1</td> <td style="text-align:center;">2</td> <td style="text-align:center;">3</td> <td style="text-align:center;">4</td> <td style="text-align:center;">5</td> </tr> </table>	Simple & Easy				Difficult & Too Technical	1	2	3	4	5
Simple & Easy				Difficult & Too Technical							
1	2	3	4	5							
6) Amount of technical detail	<table style="width:100%; border:none;"> <tr> <td style="width:40%; text-align:left;">Not Enough</td> <td colspan="3"></td> <td style="width:20%; text-align:right;">Too much</td> </tr> <tr> <td style="text-align:center;">1</td> <td style="text-align:center;">2</td> <td style="text-align:center;">3</td> <td style="text-align:center;">4</td> <td style="text-align:center;">5</td> </tr> </table>	Not Enough				Too much	1	2	3	4	5
Not Enough				Too much							
1	2	3	4	5							
7) What are your main sources of information on business management?	___ BCMAF Staff ___ Industry ___ Research Station ___ Other Farmers ___ Trade Journals/Periodicals Other: _____										
8) Preparation costs are high. If future editions were priced, indicate the amount you would be willing to pay.	___\$2 ___\$5 ___\$10 and over										
9) What are the strong points of this publication?											
10) What are the weak points that we should try to correct?											
11) What segments are of the most use to you?											
12) What segments are the least useful to you?											
13) Other comments	(use back of page if necessary)										

Thank you for your input. It will help us make future material most useful to you.