
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.

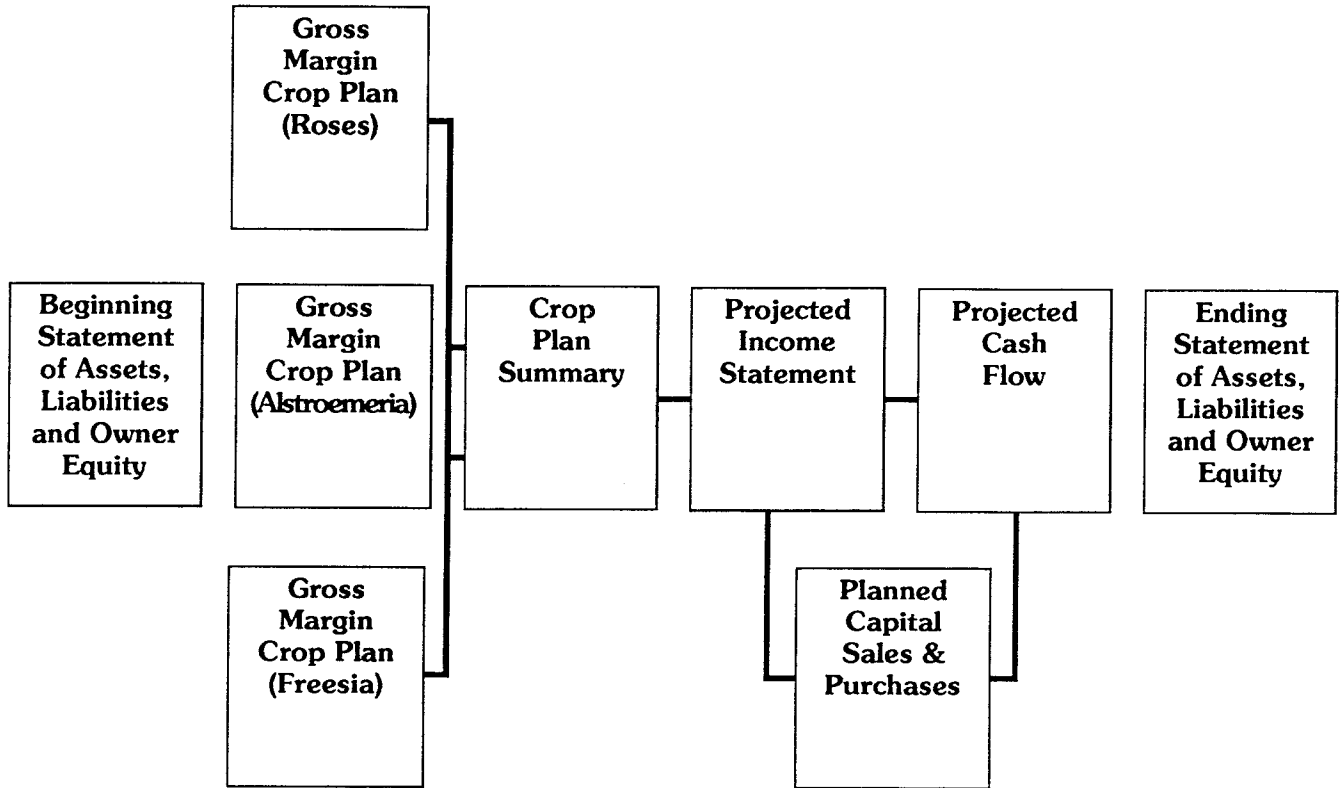
When preparing a financial plan for an existing business, statements for the past two to three years should be included.

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 and Fisheries 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 BCMAF 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 for the last two or three years. The following form shows an example for S&B Flowers. 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.

Income Statement Example

Period from _____, 19__ to _____, 19__

	Year One	Year Two	Year Three
Income (from sales)			
Auction	136,594	184,538	213,750
Wholesale	45,372	61,046	70,616
Cash and carry	18,713	25,455	29,550
a) Total Income (from sales)	200,678	271,039	313,916
Expenses			
Plants, fertilizer, pest control	52,360	27,710	28,460
Natural gas & electricity	25,280	27,500	27,500
Repairs, maintenance, transportation	13,445	13,700	13,600
Marketing Commission	17,267	21,913	21,913
Labour	39,463	49,055	49,055
Materials	3,510	4,770	4,770
Property taxes, licences,	1,800	2,200	2,200
Legal, accounting, office	4,500	2,200	2,200
Insurance	3,500	3,500	3,500
Advertising & promotion	2,200	1,800	1,800
Operating interest	3,900	800	700
Term loan interest	42,000	48,200	46,300
b) Total Expenses	209,225	203,348	201,998
c) Excess Income Over Cash Expenses (a-b)	-8,546	66,691	111,918
Adjustments			
d) Less Depreciation	37,000	55,000	55,000
e) Ending Inventory	35,000	60,000	70,000
f) Beginning Inventory		35,000	60,000
g) Inventory change (+or-) (e-f)	35,000	25,000	10,000
h) Net Farm Income (c-d+g)	-10,546	36,691	66,918



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 S&B Flowers.

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 and Fisheries 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

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	200	50	70	80	270	54	73	81	62	251	63	85	94	72
Total Cash Income	200	50	70	80	270	54	73	81	62	251	63	85	94	72
Accts Received	350	200	150											
Loans Received														
Capital Sales	500	400	100											
Personal Contributions	1,050	600	300	70	80	54	73	81	62	251	63	85	94	72
Total Cash Inflow														
Cash Outflow														
Cash Expenses	209	71	44	44	50	52	50	50	51	151	51	50	50	51
Term Loan Principal	7			7	20				20	60				60
Accounts Paid	800	500	300											
Capital Purchases	30	7	8	7	8	7	8	7	18	33	7	8	7	18
Living Expenses and Income Tax	1,046	578	352	51	65	59	58	57	89	244	58	58	57	129
Total Cash Outflow														
Cash Surplus or Deficit	22	(52)	19	15	(27)	(5)	15	24	(27)	98	5	27	37	(57)
Opening Cash Balance														
Closing Balance	22	(30)	(11)	4	(1)	4	14	38	11	106	16	43	80	23



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 S&B Flowers 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 and Fisheries 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	4,000	11,000	23,000
Accounts Receivable	7,000	10,000	12,000
Inventory	35,000	60,000	70,000
a) Total Current Assets	46,000	81,000	105,000
INTERMEDIATE ASSETS			
b) Total intermediate			
FIXED ASSETS			
Buildings and Equipment			
c) Cost	800,000	800,000	800,000
d) (Less depreciation)	29,000	70,000	108,000
e) Total Fixed (c-d)	771,000	730,000	692,000
f) Total Assets (a+b+e)	817,000	811,000	797,000
Liabilities and Equity			
CURRENT LIABILITIES			
Operating Loan	1,000		
Accounts Payable	14,000	10,000	12,000
g) Total Current Liabilities	15,000	10,000	12,000
INTERMEDIATE (1-10 YR)			
h) Total Intermediate Liabilities			
LONG TERM (> 10 YR)			
Mortgage	343,000	333,000	273,000
i) Total Long Term Liabilities	343,000	333,000	273,000
j) Total Liabilities (g+h+i)	358,000	343,000	285,000
k) Owners' Equity (f-j)	459,000	468,000	512,000
TOTAL LIABILITIES AND EQUITY (j+k)	817,000	811,000	797,000



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)		365,000	365,000		7-15 yrs	20-30%
Total Intermediate		365,000				
Long term Assets						
Land		50,000				
Buildings		385,000	135,000	350,000	20 yrs	0
Total		800,000	500,000	350,000		



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								
	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										
Intermediate Loans										
Long term Loans										
Total										
New Loans										
Short Term Loans										
Operating Loan	50,000	Prime +1%	NA					Assignment of Receivables and Inventory		
Intermediate Loans										
Long term Loans										
Land	300,000	0	Annual	46,410	7,410	39,000		1st Mortgage	15	A
Buildings	50,000	0	Annual	7,735	1,235	6,500		1st Mortgage	20	A
Total				54,145	8,645	45,500				



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 and Fisheries Factsheet: 1990-07 *Financial Analysis Using Financial Ratios*.

The example form shows the ratios for S&B Flowers.

Financial Performance Indicators Example

Financial Ratios (Formula)	Year one	Year two	Year three	Bench-mark
Profitability Ratios				
Return on Equity (%) $\frac{\text{net income}}{\text{total equity}} \times 100$	neg	4.3%	14%	> term deposits
Return on Investment (%) $\frac{\text{net income} + \text{paid interest}}{\text{total investment}} \times 100$	n/a	8.7%	14.3%	> interest on term loans
Risk Ratios				
Current Ratio $\frac{\text{current assets}}{\text{current liabilities}}$	2.8	7.1	9.3	> 2
Debt to Equity Ratio $\frac{\text{total liabilities}}{\text{owners' equity}}$.78	.71	.66	< or = to .7
Interest Coverage Ratio $\frac{\text{net income} + \text{interest}}{\text{interest expense}}$	neg.	1.4	2.4	positive
Debt Servicing Ratio (%) $\frac{\text{annual payments}}{\text{total revenue}} \times 100$	22%	22%	19%	< or = to 30%
Growth Ratios				
Sales Growth (%) $\frac{\text{sales increase}}{\text{previous sales}} \times 100$	n/a	34.8%	15.8%	positive
Equity Growth (%) $\frac{\text{equity increase}}{\text{previous year's equity}} \times 100$	(8.2)%	2%	9.4%	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 the plans S&B Flowers has for the future.

Long-Range Planning Example

Business Goals and Objectives

- Maintain a reputation in the floriculture industry for premium quality cut flowers; consistent year round production and efficient, friendly service.
- Expand to 8,000 square metres in 5 to 8 years.
- Maintain a profitable business with a positive net income.
- Expand retail and total sales by 5% per year.
- Implement production and labour practices which will optimize yields; aim at market prices within the top 25% of auction sales.

Major Milestones

- Retire mortgage in less than 10 years
- Expand to 8,000 square metres in 5 years.

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

- Develop labour management and financial management skills

Other Assistance (non financial) Required