

Preparing a Business Plan

A Guide for Agricultural Producers

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Prepared by:

Lorne Owen P.Ag.
Provincial Farm Management Specialist
Farm Management Branch
B.C. Ministry of Agriculture and Fisheries

Pat Davidson
Extension Education Specialist
Extension Systems Branch
B.C. Ministry of Agriculture and Fisheries

Gordon Grant P.Ag.
Provincial Floriculture Specialist
B.C. Ministry of Agriculture and Fisheries

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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 be a guide for you in preparing one.

The importance of planning in business and agriculture cannot be overestimated. 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 4000 square metre cut flower greenhouse 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 and Fisheries (BCMAF) district office, Ministry commodity specialists or the Farm Management Branch. BCMAF 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, Human Resources Production, 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 Resource
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 right 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 19__ , __ , __

to

Establish and Operate

"S & B Flowers"

a 4,000 M² Cut Flower Greenhouse

Prepared by:

Sally and Bradley Anderson

Date: Dec. __, 19__

Mailing Address:

100 Central Avenue

Chilliwack, B.C.

V4T 2B7

Phone: (604) 768-5555

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 prospective 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 business and encouraging him or her to read the remainder of the plan. This section is provided to give them the basics.

As the example shows, this section includes:

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

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

The summary and profile 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.

Business Profile and Summary Example

Purpose of the plan

The plan outlines our proposal to establish and operate a 4,000 square metre cut flower greenhouse operation, producing and selling quality roses, alstroemeria and freesia through the United Flower Growers' (UFG) Auction Market and to retail flower shops and walk-in customers.

Required Financing and Sources

\$850,000 is required to establish and operate the business:

- \$385,000 for buildings and improvements,
- \$50,000 for land
- \$365,000 for equipment,
- \$50,000 as operating capital.

\$500,000 will be invested as equity capital by the owners.

\$350,000 will be required as borrowed capital secured by first mortgage and chattel security as well as assignment of accounts receivable.

Business Activities and Targets

Marketing

- Establish a reputation in the floriculture industry for premium quality cut flowers
- Target Prices: Roses — \$ 0.55 per stem; Freesia — \$ 2.40 per stem; Alstroemeria — \$ 3.00 per bunch
- Expand retail and auction sales by 5% per year.

Production

- Obtain optimal yields through recruiting and training skilled workers, and by using a computerized climate control system, artificial lights, CO₂, and mist.
- Yields: Roses: — 210 stems per m²; Freesia — 28 bunches per m²; Alstroemeria — 36 bunches per m²
- Reduce environmental problems by recycling irrigation water and fertilizer and using biological controls and IPM.

Labour

- Establish a safe working environment through training programs and supervision
- Productive work force with low turnover, through careful selection and screening, training programs, regular performance reviews, and related management activities.

Financial

- Establish a profitable business with a positive net income within two years; finance annual operating expenses from retained earnings within three years.
- Reduce cash flow requirements by financing buildings and land over a 15 year term; pay out mortgage within 8 years.

Projected Income and Net Worth

Item	Year One	Year Two	Year Three
Revenue	201,000	271,000	315,000
Net Income	-10,546	36,691	66,918
Net Worth	459,000	468,000	512,000

Business Organization

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

This section will include:

- how your business is organized: sole proprietorship, partnership or corporation. If you haven't decided which is best for you, consult with your accountant and lawyer. A review of two BCMAF 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 Organization Example

Business Name and Address:	S&B Flowers 100 Central Avenue Chilliwack, B.C. V4T 2B7
Telephone:	(604) 768-5555
Type of Organization:	Corporation

Registrations and Licences

Type	Date Issued	Number
1. Corporate Registration	January 9, 19__	222222222
2. Business Licence	(Approval Pending)	
3. Workers' Comp. Board	February 2, 19__	333333
4. Development Permit	(Approval Pending)	
5. Environmental Licence	(Approval Pending)	
6.		

Business Management

Name	Position	% of Business Owned
1. Bradley Anderson	Owner/Marketing and Business Manager	50
2. Sally Anderson	Owner/Production and 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 - how much you plan to sell, who your customers are, how your products will be priced and how you will promote your product.

The marketing plan will review the four Ps 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. Market Sales

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 growers
- 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:

- styles, varieties, or consumer tastes.
- 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 S&B Flowers.

Market Sales Example

Annual B.C. Floral Sales \$000	1986	1987	1988	1989
	43,000	48,000	52,000	60,000

Sales/Year \$000	1986	1987	1988	1989
Cut Rose	2,800	3,000	3,100	7,800
Alstroemeria	170	162	216	346
Freesia	4,200	5,800	5,700	5,600

Industry and Market Trends Example

Major Trends

1. Cut flower sales have grown steadily with an annual average rate of 20% over the last 27 years. An annual growth rate of 10% is expected to the year 2000.
2. United Flower Growers' (UFG) auction sells 50% of the cut flowers in B.C. Annual sales are currently in excess of \$26 million per year.
3. There are currently 225 greenhouse growers in B.C. producing 700,000 sq. metres of flowers in glass and plastic facilities. Currently 12 greenhouses (10% of growers) produce 90% of the cut flowers grown in lower mainland.
4. Cut flower prices fluctuate with seasonal availability as well as quality and color. Flowers grown in lower mainland compete with those grown in Holland, New Zealand, California, South America and Eastern Canada. International competition will continue to set the market prices and standards.
5. Industry in B. C. is recognized as the North American leader in technology and innovation. Trained labour is difficult to find. The industry is becoming more mechanized and is reducing labour inputs.
6. Industry is adopting environmentally sustainable practices and reducing pesticide use.



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. Competition

For each product, identify the major competitors. This information can be gained from trade associations, interviews with potential customers or trade journals.

Will you be competing directly for the same customers as your competitors? If so, what could your competitors' response be?

Based on this information you should be able to develop a planned response and supply the information needed in the following section on *Customer Analysis and Response*.

Political and Legal Constraints Example

Constraint	Response
Import and export tariffs on some products are being reduced under the Free Trade Agreement	Efficient and competitive cost structure.
Municipal building regulations limit the portion of ground that can be covered by a greenhouse.	Build on a large enough land base to allow for future expansion
Immigration rules restrict hiring trained staff from Europe.	Develop staff training programs and reference materials.
Pesticide applicators must be certified.	Ensure staff obtain certification.
Federal and provincial environmental regulations apply to waste materials.	Include effective waste management facilities when building facility.
Inputs available to growers in other countries unavailable in Canada & registration of other pesticides may be lost in future.	Reduce dependency on pesticides and herbicides through use of integrated pest management (IPM) and biological controls.

Competition Example

Name of Competitor	Size of Company (Sales in \$)	Marketing Method	Market Share (%)	Describe Competitive Advantage
Joe's Universal Flowers	3,000,000	Auction	20	Good quality, well established
Imported Flowers by Joan	3,000,000	Auction and private contracts	20	Good service, competitive prices, excellent selection
Pat's Flowers	2,000,000	Auction & private contracts	15	Good service, well established
19 other	25,000,000	All levels	45	

5. Customer Analysis and Response

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

Interviewing a wide range of customers 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 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.

6. Target and Future Sales

This section is critically important. The sales plan forms the foundation of all your projections. Where you are required to make forecasts, you should make at least three sets of projections: "optimistic", "pessimistic", and "most likely" scenarios.

Prepare an analysis of your expected sales volume. Information from previous forms, *The Market* and *Competition*, will provide the basic information. This information can be summarized into a table such as is shown in our sample on the opposite page.

Prepare a schedule of forecasted sales by product for each of the next few years. Three sets of forecasts should be prepared showing "optimistic", "pessimistic", and "most likely" scenarios.

The sample opposite summarizes the potential for each of your products.

Customer Analysis and Response Example

Customer	Targets	Barriers	Strategies
Auction buyers	top 25% UFG daily & annual average prices, \$294,000 sales	well established local & international competition	good selection & mix of colors, high quality flowers, develop new lines, attractive packaging, increase off-season production
Wholesale	20% premium above auction price, \$110,000 in sales, 5% annual sales growth	well established local & international competition, seasonally depressed prices	prompt service, promotion, customer contact, custom packaging, good selection of colors, high quality product
Cash and Carry	100% premium above auction prices, \$40,000 in sales, 5% annual sales growth	local & international competition, price competition & seasonally depressed prices	friendly service, attractive displays & packaging, good color mix, advertising, price, good selection

Target and Future Sales Example

Sales Forecasts for Next Three Years (\$000)									
	Optimistic			Pessimistic			Most Likely		
	Yr 1	Yr 2	Yr 3	Yr 1	Yr 2	Yr 3	Yr 1	Yr 2	Yr 3
Auction	150	203	235	116	157	182	137	185	214
Wholesale	50	67	78	39	52	60	45	61	71
Cash & Carry	21	28	32	16	22	25	19	25	30
Total Sales	221	298	345	171	230	267	201	271	315



7. Pricing

Prepare a price schedule for each of your products. Knowing your direct costs and contribution margins is essential to making any pricing decisions. Make sure you have surveyed competitors and potential customers.

The sample form opposite provides an example of past and expected prices as well as per unit contribution margins. If you expect major changes in prices these should be noted.

Pricing Example

Historic Prices				
	1986	1987	1988	1989
Cut Rose (per stem)	\$0.46	\$0.51	\$0.55	\$0.56
Freesia (10 stems per bunch)	\$2.40	\$2.00	\$2.10	\$2.40
Alstroemeria (6.5 stems per bunch)	\$4.29	\$4.44	\$3.69	\$2.93

Cut Roses (based on 210 stems/m ²)				
Customer	Price per stem	Direct cost per stem	Gross margin per stem	Gross margin per m ²
Auction	\$0.55	\$0.30	\$0.25	\$52.50
Wholesale	0.66	0.24	0.42	88.20
Cash&Carry	1.20	0.22	0.98	205.80

Freesia (based on 36 bunches per m ²)				
Customer	Price per stem	Direct costs per stem	Gross margin per stem	Gross margin per m ²
Auction	\$2.40	\$1.38	\$1.02	\$37.00
Wholesale	2.88	1.28	1.60	58.00
Cash&Carry	4.80	1.12	3.68	132.00

Alstroemeria (based on 27.7 bunches per m ²)				
Customer	Price per stem	Direct costs per stem	Gross margin per stem	Gross margin per m ²
Auction	\$3.00	\$1.00	\$2.00	\$55.00
Wholesale	4.00	0.92	3.08	85.00
Cash&Carry	6.00	0.90	5.10	141.00

8. Promotion and Advertising

For each product you plan to sell, indicate how you will promote it to the end user. Why did you choose each method? What are the expected results? The costs of such promotions will be included in the advertising costs of the next section.

Special attention should be paid to the customers you want to reach, timing of promotions, business image, cost effectiveness and benefits. Alternatives will include paid advertising, direct mailings, packaging, sales promotions (coupons, samples, displays), as well as direct in-person and phone contacts with customers.

The sample form opposite shows what promotional tools S&B Flowers plans to use to achieve its sales forecast.

Estimate how much these communications will cost. The media, graphics companies and advertising agencies can provide cost information.

The budget form summarizes the cost for both promotional and advertising programs.

Promotion and Advertising Example

Method of Promotion	Target Customer	Year One (\$'s)	Year Two (\$'s)	Year Three (\$'s)
Trade Show Booth	Wholesale & retail buyers	350	350	350
Direct mailout/brochures	Wholesale & retail buyers	250		
Packaging/sleeves	Wholesale & retail buyers; cash & carry customers	1200	1200	1200
Local radio station interview: <i>How to keep cut flowers looking fresh longer</i>	Cash & carry customers	n/c	n/c	n/c
Samples, donated products to annual flower arrangement competitions	Wholesale & retail buyers	n/c	n/c	n/c
Community newspaper ads; signs; displays	Cash & carry customers	150	100	100
Direct contact, in-person visits; phone follow-up to targetted buyers	Wholesale & retail buyers	250	150	150
Total		2200	1800	1800

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 and Fisheries provides a publication called *Farm Labour Management in B.C.* Copies are available from the Farm Management Branch or your closest district office.

1. Employee Plan

As the form opposite shows, S&B Flowers is planning to have five 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 and business experience in detail for the managers and skilled workers in your firm.

2. Organization Chart

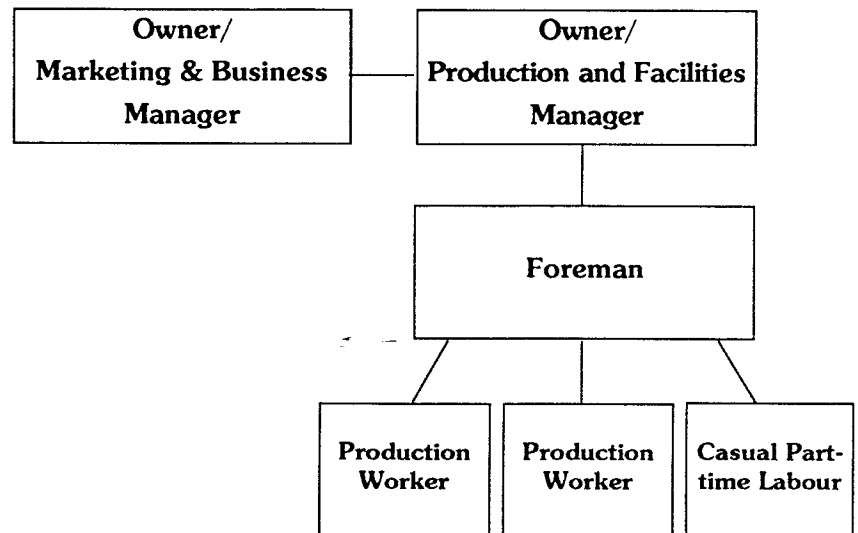
Once you have prepared your employee plan, complete an organization chart as well to illustrate how your staff members are organized and to whom they report. This is important for two reasons. First, readers outside your firm will want to see evidence that you have thought through and organized the staff and management needs of your business. Second, your own employees will want to know how their firm is organized. The form opposite shows S&B Flowers' 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/marketing and business manager	company management, sales management, promotion and market development, bookkeeping, cost accounting, billing, coordinating and developing business plan
Owner/production and facilities manager	company management, production management, supervising workers, worker training, scheduling and coordinating repairs and maintenance, upgrading and developing facilities
Foreman	supervision of cultural and harvest practices; shipping and handling; general maintenance
Production workers (2)	cultural and harvest practices e.g. pruning, transplanting, harvesting, watering
Casual part-time labour	harvesting, pruning, transplanting

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 S&B Flowers 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 S&B Flowers.

Compensation and Benefits (Year 1-3) Example

Position	Salary and Benefits
Owner/marketing and business manager	50% profit share (\$15,000 cash draw)
Owner/production and facilities manager	50% profit share (\$15,000 cash draw)
Foreman	\$22,000 (including bonus)
Production workers	\$38,000 (2 @ \$19,000)
Casual part-time workers	\$7.50/hr (Total: \$10,000)

Labour and Training Goals Example

Target	Barrier	Planned Response	Measurement
Employee safety - an accident-free workplace	Knowledge; working conditions	Training; employee manual; awareness and supervision	100 accident - free days
High productivity	Work habits, knowledge, attitude, experience	Attention to employee concerns; regular performance reviews; training opportunities; job design; staff hiring management style	210 roses/m ² ; 28 bunches Freesia; 36 bunches Alstroemeria
Low staff turnover ratio	Demand for skilled workers by other firms	Attention to employee concerns; regular performance reviews; staff hiring and training opportunities;	Tenure > 2 years

The Production Plan

1. Land, Buildings and Facilities

The sample form describes S&B Flowers' production facilities. The buildings and improvements are detailed to illustrate the kind of thinking you will need to do up front when planning your facility. In the S&B Flowers case, they need a greenhouse, a cooler and a packing area. 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 S&B Flowers' equipment and fixture purchases. 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:	Chilliwack	
Description:	Cut flower greenhouse operation	
Size:	4000 square metres	
Owned or leased:	Owned	
Buildings and improvements:	Greenhouse	\$270,000
	Cooler and packing area	\$115,000
	TOTAL	\$385,000
Land:		\$50,000

Equipment Example

Description	Cost
1. Heating and climate control	\$142,500
2. Irrigation system	10,000
3. Recycling system	16,000
4. Lighting system	90,000
5. CO ₂ emitters	12,000
6. High pressure mist	40,000
7. Auxiliary power (power take off)	2,000
8. Spray equipment	3,500
9. Scales, meters and tools	4,500
10. Rototiller, netting and bulb digger	9,500
11. Tractor	15,000
12. Truck	20,000
TOTAL	\$365,000

3. Materials and Supplies

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 S&B Flowers. You'll also need to know which suppliers you plan to order from, the typical order and delivery cycle, terms and conditions of sale and policies about returned or damaged goods.

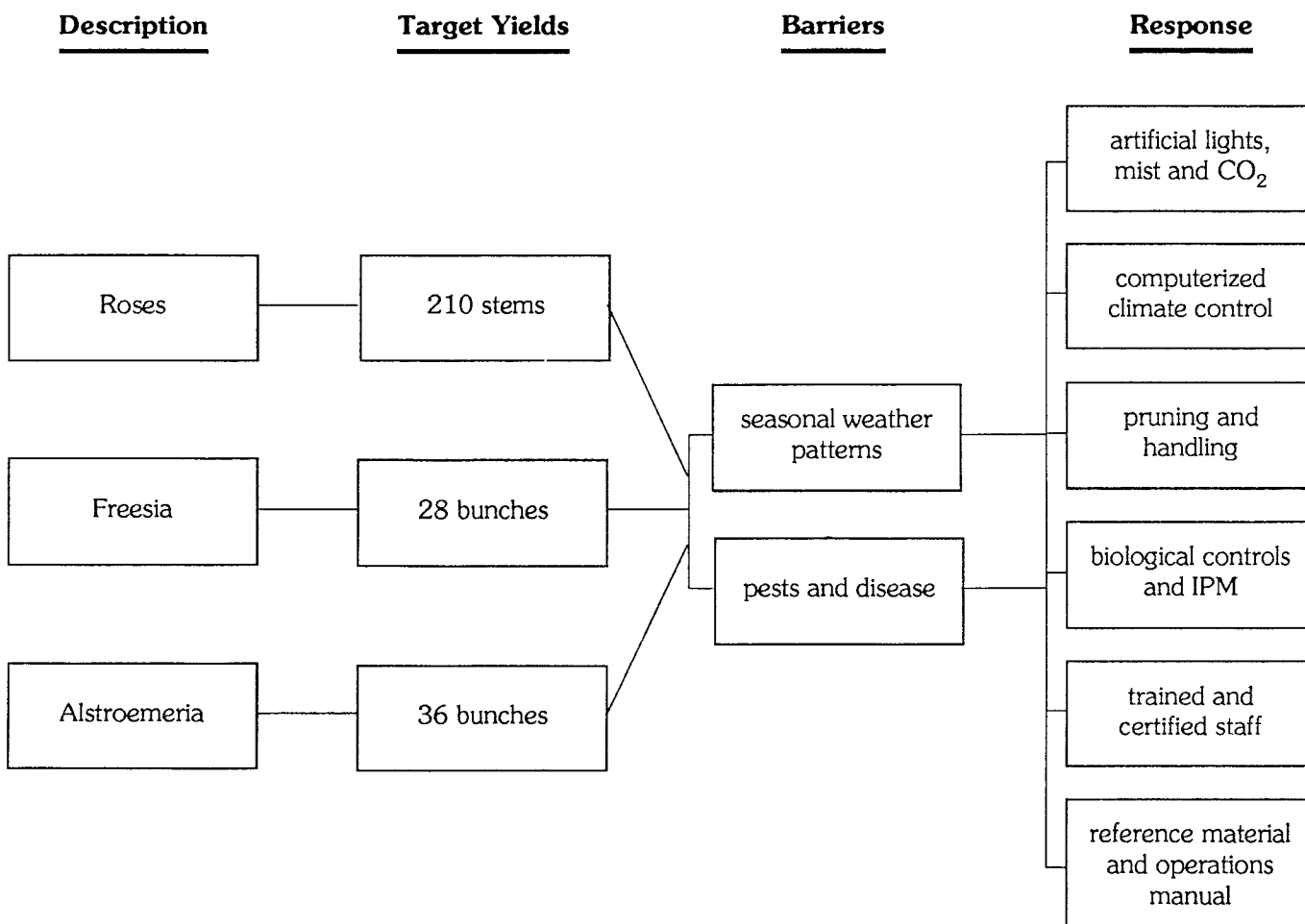
4. Production Strategies

You will need to carefully research and thoroughly understand the crop you are planning to grow, 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.

Materials and Supplies Example

Description	Annual Requirement	Total Cost (\$)	Supplier	Order Lead Time
Rock wool slabs	300	1,000	R.W. Supplies	12 weeks
Nutrients	1100 kg	3,200	T.P. Grower Supply	8 weeks
Rooted cuttings	1000	1,500	California Roses	24 weeks

Production Strategies Example





5. Construction/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.

In our example, S&B Flowers have charted a schedule spanning a 38-week period.

Construction/ Production Schedule Example

Construction and Production Schedule																																		
Week	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	///	32	33	34	35	36	37	38				
Contracts	X	X																																
Blueprints & design		X	X																															
Bldg. permits & licenses			X	X	X	X	X																											
Land preparation, service & wells							X	X	X																									
Equipment manufacturing									X	X	X	X	X	X																				
Materials purchases & receiving							X	X	X																									
Building foundation										X	X	X	X																					
Structural steel														X	X	X	X	X	X															
Concrete walls & floors															X	X	X																	
Glass																X	X	X																
Electricity and standby power																	X	X	X	X														
Heating and boilers													X	X	X	X	X	X																
Benches and water system													X	X	X	X	X	X																
Service building																	X	X	X															
Screens and lights																					X	X												
Clean up and misc.																																		
Order crop materials	X					X			X						X	X																		
Place rose cuttings																																		
Plant corns																																		
Start harvesting roses																																		
Start harvesting alstroemeria & freesia																																		

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.

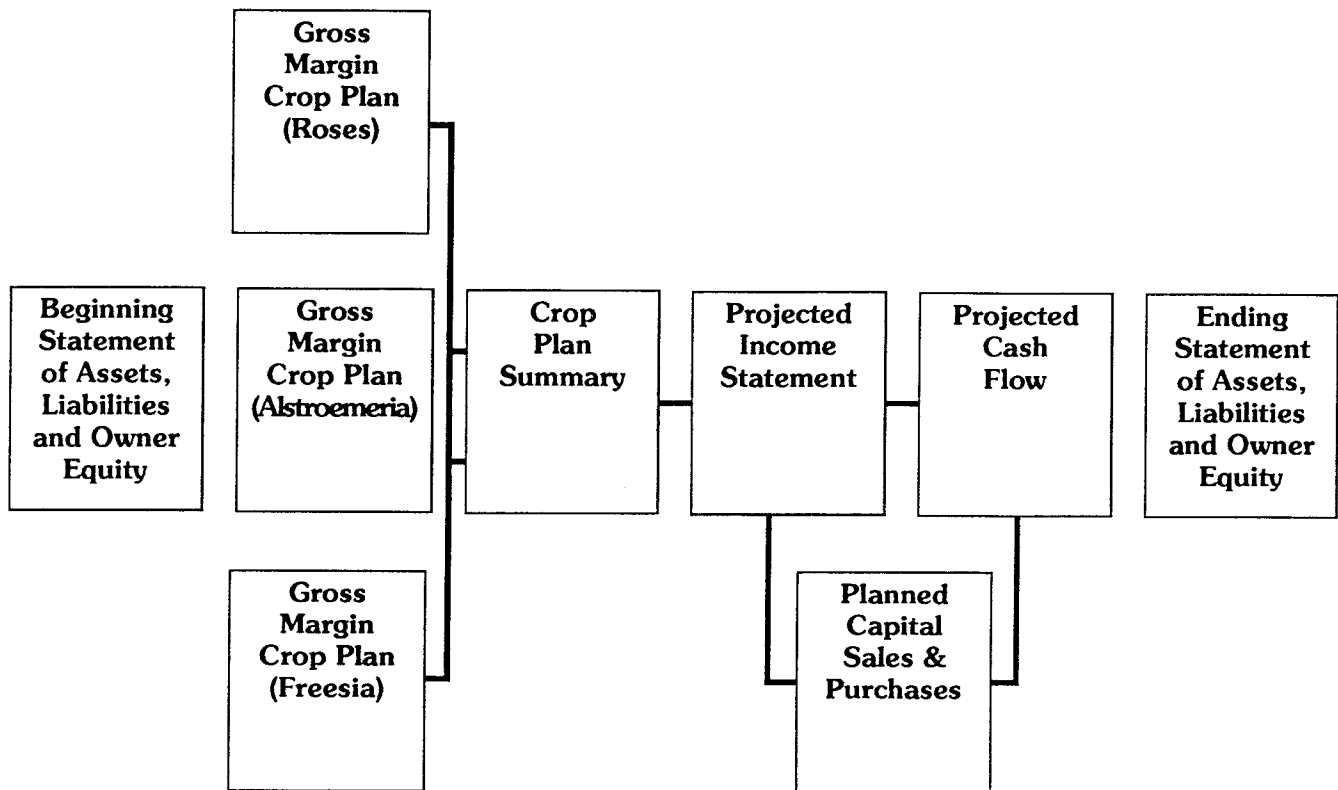
When preparing a financial plan for an existing business, statements for the past two to three years should be included.

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				Yr 2				Yr 3						
	Total	1	2	3	4	Total	1	2	3	4	Total	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	270	54	73	81	62	251	63	85	94	72
Total Cash Inflow															
Cash Outflow															
Cash Expenses	209	71	44	44	50	203	52	50	50	51	151	51	50	50	51
Term Loan Principal	7				7	20				20	60				60
Accounts Paid															
Capital Purchases	800	500	300												
Living Expenses and Income Tax	30	7	8	7	8	40	7	8	7	18	33	7	8	7	18
Total Cash Outflow	1,046	578	352	51	65	263	59	58	57	89	244	58	58	57	129
Cash Surplus or Deficit															
Opening Cash Balance		22	(52)	19	15		(5)	15	24	(27)		5	27	37	(57)
Closing Balance			22	(30)	(11)		4	(1)	14	38		11	16	43	80
		22	(30)	(11)	4		(1)	14	38	11		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
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TOTAL LIABILITIES AND EQUITY (j+k)	817,000	811,000	797,000
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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								
Existing Loans	Amount Owing	Interest Rate	Payment Frequency	Annual Payment	Principal	Interest	Source/ lender	Security Provided	Term Years	Amortized Non-Amortized (A)/(N)
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

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, and mineral rights).

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 cropping systems).



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).

CONTRIBUTION MARGIN

Contribution margin is the excess of total revenue minus variable expenses that directly relate to the business operation.

COST

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

COST-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).

COST-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, pest control supplies.)

COST OF GOODS SOLD

The cost of products (e.g., greenhouse tomatoes) sold during the year. This cost calculation includes the production and purchase costs of goods.



DEBT-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).

DEBT-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 from 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.

LEASE-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.

LEASE-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.)

LIABILITIES-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.

LOANS-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.

LOANS-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 (including the costs of disposition). This value is often based upon comparison to the latest sales data of similar assets under similar selling conditions.

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 data 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.

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