

Preparing a Business Plan

Greenhouse Vegetable Example

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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 10,000 square metre tomato 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, 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 you when you are ready to develop your next formal business plan. This file is called 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 short and long 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 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

Central Valley Greenhouses Ltd.

a 10,000 ^{sqm} Tomato Production Facility

Prepared by:

John and Ian Smith

Date: Feb. __, 19__

Address:

250th Street

Aldergrove, B.C.

V9S 1H7

Phone: (604) 854-3333

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 10,000 square metre greenhouse vegetable production facility, and to grow and sell quality tomatoes through the Western Greenhouse Growers Cooperative Association in Surrey.

Required Financing and Sources

\$1,432,500 is required to establish and operate the business:

- \$620,000 for buildings and improvements,
- \$225,000 for land,
- \$392,500 for equipment,
- \$195,000 as operating capital.

\$670,500 will be invested as equity capital by the owners.

\$762,000 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

- Obtain quota and sell all product through the Western Greenhouse Growers' Cooperative Association (WGGC)

Production

- Obtain optimal yields through recruiting and training skilled workers, and by using a computerized climate control system, and CO₂, and by employing modern production techniques which have proven to be successful under local climate conditions.
- Target yield: 43 kg/m² (year 1); Increase yield to 48 kg/m² by year 3.
- Reduce environmental impact on ground water quality by recycling nutrient solution and using biological pest control agent in an IPM program

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 the land over a 20 year term and the buildings over a 15 year term; pay out mortgage within 12 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

Note: In our example the fiscal year starts in July at the beginning of greenhouse construction; the low revenue from tomato sales in Year 1 reflects the production during a 5 month harvesting period (February until June).

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 just 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 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 Organization Example

Business Name and Address:	Central Valley Greenhouses 250th Street Aldergrove, B.C. VOX 1A0
Telephone:	(604) 854-3333
Type of Organization:	Corporation

Registrations and Licences

Type	Date Issued	Number
Corporate Registration	Nov. 9, 19__	44444444
Business Licence	(Approval Pending)	
Workers' Comp. Board	December 17, 19__	777777
Development Permit	(Approval Pending)	
Environmental Licence	(Approval Pending)	

Business Management

Name	Position	% of Business Owned
John Smith	Owner/Manager Business and Facilities	50
Ian Smith	Owner/Manager Production and Personnel	50

Business Advisors

Name and Address	Role	% of Business Owned
Mary Taylor, LL.B	Lawyer	-
Frank Wilson, CA	Accountant	-
Jan de Vries	Greenhouse Grower	

The Marketing Plan

In this section you will describe, in general terms, the industry in which you operate. The greenhouse vegetable industry encompasses the production of five vegetables, primarily:

- beefsteak and cherry tomatoes
- long english cucumbers
- european butter head lettuce
- coloured bell peppers

At present, with the exception of peppers, all commodities are regulated products and require a quota to be grown. They can only be sold through designated agencies such as the Western Greenhouse Growers' Cooperative Association (WGGCA). In that case the grower is not personally involved in the promotion and selling of his product. Please keep in mind that it will take approximately one year for a quota application to be reviewed and approved.

If you are planning to grow peppers, detailed information on marketing strategies must be provided - how much you plan to grow and 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 P's of marketing: product, price, place and promotion, helping to ensure that you have a product which the market wants and one that you can sell at a profit.

1. Development of Commodity Sales and Prices

Most credit institutions will contact the grower co-ops to obtain industry sales data and information on market trends. Schedules showing the industry growth rate and price developments over a period of five years are illustrated on a sample form on the following page and should be included in your business plan. Further 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 suppliers
- B.C. government business and agriculture advisory services
- local horticultural training institutions

**Development of
Commodity Sales
and Prices
Example**

	1986	1987	1988	1989
Tomato Sales in B.C. (Market value of Growers shipments)	100	122	134	167
Tomato Prices in B.C. (Gross Sales Value per 20 lbs case)	100	101	107	105

*Note: detailed information on prices and sales are not available;
1986 tomato prices and sales equal 100%.*

2. Industry and Market Trends

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

- cultivars or consumer tastes
- vegetable sales and industry expansion
- industry structure and size of operations
- market organizations and pricing
- new technology and production practices

You can find out about these trends by reading industry journals and discussing with other growers 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 Central Valley Greenhouses.

Industry and Market Trends Example

1. Sales of greenhouse tomatoes have increased steadily with an annual average rate of 12% over the last 10 years. This growth rate is likely to continue to the year 2000.
2. The WGGC is the only agency in Districts I and II permitted to sell tomatoes on behalf of the growers. WGGC represents 87 greenhouse operations on the mainland and on Vancouver Island. Thirty-six of these growers produce tomatoes. 96% of all greenhouse tomatoes in B.C. are sold through the Co-op.
3. Tomato prices depend on the seasonal availability and the quality of the product. Locally produced tomatoes compete with field grown products from Mexico, California and Florida. The market share of greenhouse tomatoes in overall tomato sales in B.C. has increased from 8% in 1985 to 22% in 1989.
4. The greenhouse vegetable industry in B.C. is recognized as the North American leader in technology and innovation.
5. The industry is adopting environmentally sustainable practices and reducing pesticide use. Approximately 95% of all tomato growers in the lower mainland use biological means to control insect pests in their greenhouses.
6. Future marketing efforts will focus on U.S. metropolitan areas and Japan. A development of these markets will allow for further expansion of this industry in the lower mainland.
7. Tomato producers are extending the growing season to take advantage of the market window in the winter.
8. Television advertising promoting the B.C. Hothouse label and in-store demonstrations are increasing per capita consumption of greenhouse vegetables.
9. The trend in the B.C. tomato industry is towards the construction of large, efficient greenhouse facilities.
10. Possibilities exist to market tomatoes as a "pesticide-free" product at a higher price.
11. Recent trials using bumble bees to pollinate tomato plants have demonstrated savings in labour costs and increased yields. Industry wide adoption of this practice is expected to take place soon.
12. A general trend exists to produce a large fruit. Consumer research has shown that fruit size is perceived to be a strong indicator of product quality.



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 the consumers use to buy the products you grow. Generally the wholesaler will inform the co-op or the growers about certain consumer preferences. You may find that your experiences and preferences are not the same as those of other consumers. It is understanding the consumers' preferences, not yours, that will contribute to the success of your business.

**Political and
Legal Constraints
Example**

Constraint	Response
Municipal registrations limit the availability of suitable land for greenhouse production.	Build on large enough land avoid land use conflicts and restrictions (set backs, noise, traffic, visual impact etc.).
Immigration rules restrict the hiring of trained staff from Europe.	Develop productivity incentives, staff training programs and reference library.
Federal and provincial environmental regulations apply to waste materials.	Include effective waste management facilities and nutrient recirculation systems when building the facility.
Product treated with pesticides may be rejected for exports.	Use biological pest control methods.
Commodity prices are subject to import fluctuations.	Maintain competitiveness on a global level.

**Customer Analysis
and Response
Example**

Customers	Target	Barriers	Strategies
supermarkets, vegetable wholesalers	large smooth fruit, firm texture, good shelf life, blemish free tomato, good taste, 38% extra large, fruit (year 1) 42% extra large fruit (year 2)	unpredictable weather patterns, incorrect cultural procedures cultivar selection	precise manipulation of environmental growth factors through computer control, training of staff in the use of correct cultural practices, use of grafted material, selection of suitable cultivar.

5. Promotion and Advertising

As previously mentioned, most greenhouse vegetables are sold through the designated sales agencies. Their qualified sales staff act on behalf of the growers by promoting and selling the product. B.C. already can claim the highest consumption of cucumbers and tomatoes per capita in North America. The following sample form shows the focus of their efforts. The costs of promotion and advertising are included in the marketing commission which is paid to the grower co-operatives.

Promotion and Advertising Example

Method of Promotion	Customer	Target
Product labelling (B.C. Hothouse)	End consumer	Identify superior greenhouse tomato
T.V. and bill board advertising	End consumer	Increase consumer awareness re: superior quality of greenhouse tomatoes
Recipe distribution	End consumer	Increase per capita consumption of vegetables

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 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 following form shows, Central Valley Greenhouses is planning to have six full-time staff members.

Note: If your business plan will be used to obtain 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 for the managers and skilled workers in your firm.

2. Organization Chart

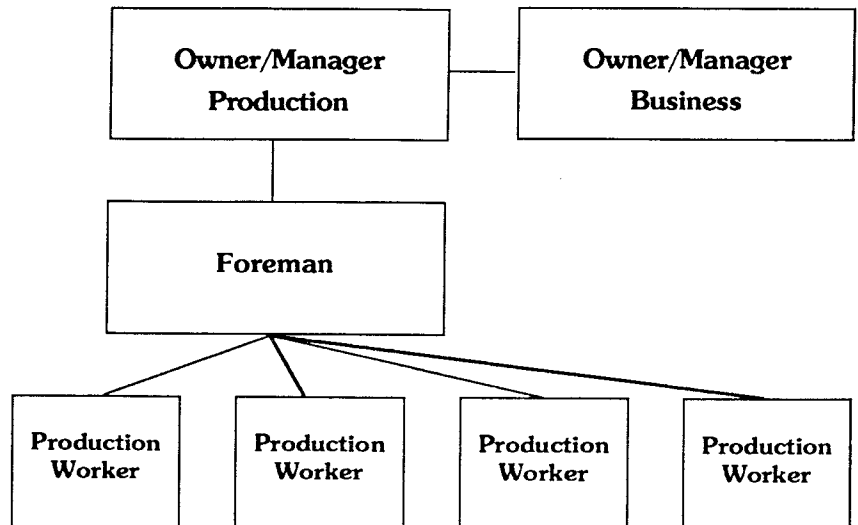
Once you have prepared your employee plan, complete an organization chart as well to illustrate how your staff members are organized and to whom they report. This is important for two reasons. Firstly, readers outside your firm will want to see evidence that you have thought through and organized the staff and management needs of your business. Secondly, your own employees will want to know how their firm is organized. The following form shows Central Valley Greenhouses' 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 Example

Job Title	Functions
Owner/Manager Business and Facilities	Company management; coordinating facility repairs and maintenance; upgrading and developing facilities; bookkeeping; cost accounting; coordinating and developing business plan
Owner/Manager Production and Personnel	Company management; production management; supervising workers; worker hiring and training; performance reviews; scheduling of labour operations and product delivery
Foreman	Supervision of cultural and harvest practices; shipping and handling; general maintenance; implementation of IPM practices; managing plant nutrition and greenhouse environment
Production Workers (4)	Cultural and harvest practices, e.g. planting, de-leafing, pollinating, pruning, plant lowering, clean-up

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 following page shows the Central Valley Greenhouse 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 growers or government organizations (such as employment offices) may be able to help you estimate the various compensation levels for which you will need to plan. Bonuses paid to employees are often linked to the yield produced by the crop.

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, motivation and discipline procedures are keys to the growth and success of your 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 Central Valley Greenhouses

**Compensation
and Benefits
Example**

	Year I	Year II	Year III	
Owner/Managers (2)	\$51,300	\$64,800	\$64,800	salaries
Foreman	\$20,250	\$27,000	\$31,000	(plus bonus)
Production Workers (4)	\$45,200	\$67,800	\$74,000	(plus bonus)

**Labour and
Training Goals
Example**

Target	Barrier	Planned Response	Measurement
Employee safety - an accident-free workplace	Knowledge; working conditions; cleanliness	Training; employee manual; regular clean-up; awareness and supervision	100 accident-free days
High productivity	Work habits; lack of knowledge; experience	Attention to employee concerns; regular performance reviews; training opportunities; work place design; management style	48 kg/m ²
Low staff turnover ratio	Demand for skilled workers by other firms; repetitiveness of labour operations	Attention to employee concerns; regular performance reviews; training opportunities; job rotation; profit sharing incentives	Tenure > 2 years

The Production Plan

1. Land, Buildings and Facilities

The sample form describes the production facilities at Central Valley Greenhouses. The buildings and improvements are detailed to illustrate the kind of thinking you will first need to do when planning your facility. In the case of Central Valley Greenhouses, a greenhouse and packing area are needed. Although not shown, a key part of your facility planning should be a layout, drawn to scale. This will help ensure that you have chosen the right facility and will help you to estimate any facility improvements that may be required.

2. Equipment

The next sample form describes the equipment purchases carried out by Central Valley Greenhouses. 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 services 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:	Aldergrove	
Description:	Greenhouse Vegetable Production Facility	
Size:	10000 square metres	
Owned or leased:	Owned	
Buildings and improvements:	Greenhouse	\$560,000
	Packing area/Boiler room	\$ 60,000
	Land (incl. servicing)	\$225,000
	TOTAL	\$845,000

Equipment Example

	Description	Cost
1.	Heating and climate control	\$265,000
2.	Irrigation system	40,000
3.	Recycling system	7,000
4.	CO ₂ distribution system	10,000
5.	Auxiliary power	25,000
6.	Spray equipment	3,500
7.	Scales, meters and tools	4,500
8.	Pallet jacks	1,500
9.	Electric Carts (4)	16,000
10.	Truck	20,000
	Total	\$392,000
	Total Capital Purchases	\$1,237,000



3. Materials and Supplies

You will need to research your material requirements in much the same way as you have your equipment need. To do this properly you'll likely need to prepare detailed lists for the product you plan to grow or produce, and then calculate the input you will need. Keep your supporting data on how you calculate this information on file in the informal business plan for future use. The sample form illustrate some of the materials required for Central Valley Greenhouses. 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.

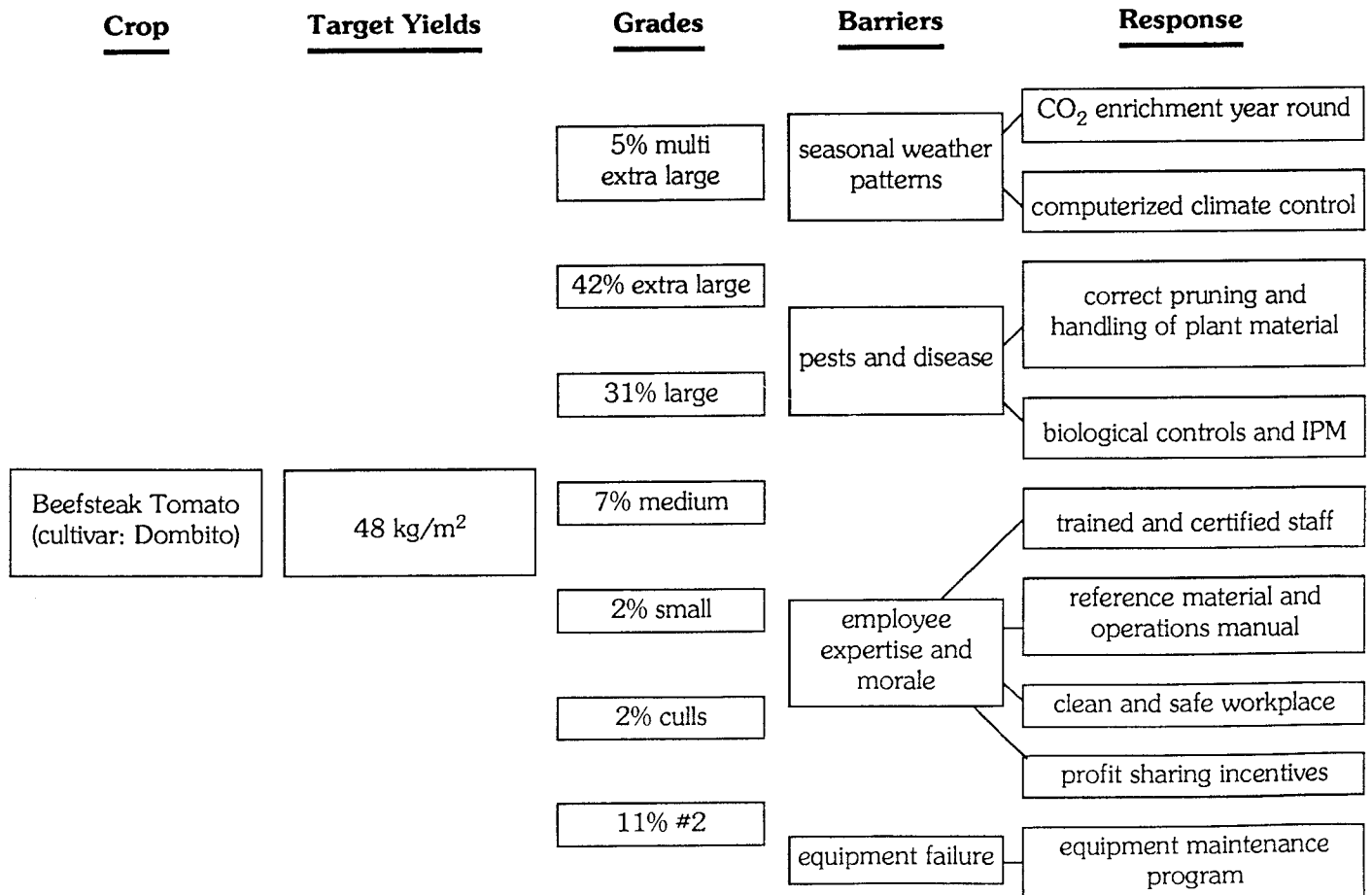
4. Production Strategies

You will need to carefully research and thoroughly understand the crop which you are planning to grow, the production system you will be using as well as how avoid potential problems. This information then can be used to develop plans to optimize yield, fruit sizes and quality through the appropriate production and labour management activities.

Materials and Supplies Example

Description	Annual Requirement	Total Cost (\$)	Supplier	Order Lead Time
sawdust bags	12,500	4,000	WT Wood Products, AG Plastics	26 weeks
biological pest control agents	26 shipments	15,000	Western Bio-Tech	standing order
grafted tomato plants 5 weeks old	25,000	52,000	G. and C. Propagators	26 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 completing dates are useful. Attention should be given to permits and licensing and contracts, as well as delivery and equipment manufacturing schedules. Schedules for when raw material will have to be ordered plus when production and sales are expected to start should be developed.

In our example, Central Valley Greenhouses have charted a schedule spanning a 33-week period.

Financial Plan

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

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

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

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

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

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

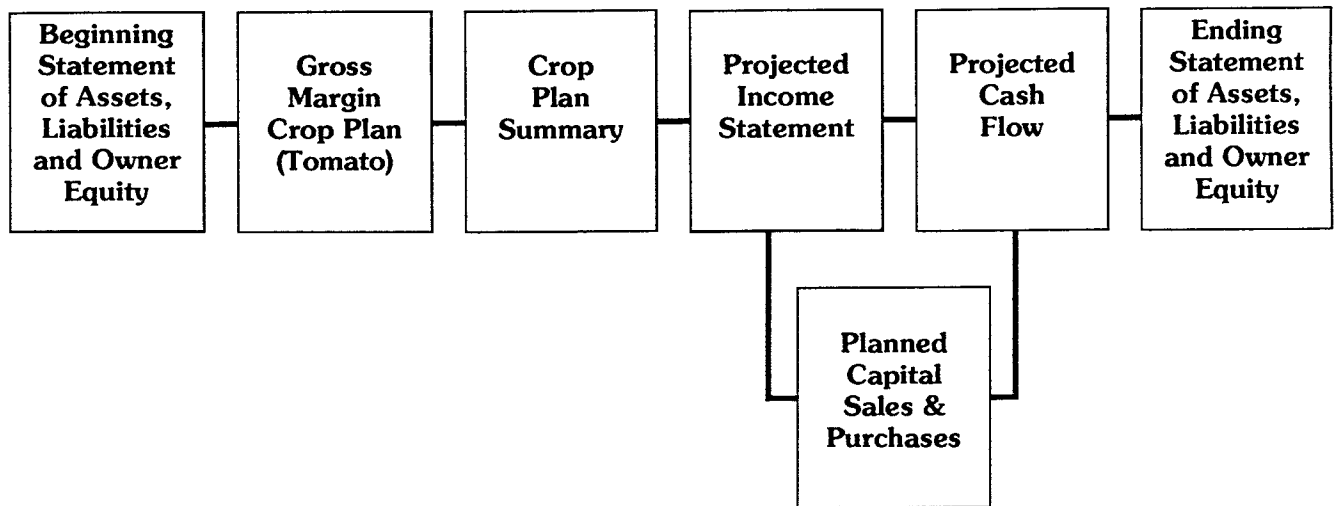
When preparing a financial plan for an existing business, statements for the past two to three years should be included.

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

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

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

Crop Planning Package



1. Income Statement

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

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

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

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

Income Statement Example

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

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



2. Cash Flow Summary

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

Cash Flow Chart Example

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

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



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

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

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

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

**Statement of Assets,
Liabilities and
Owner's Equity
Example**

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



4. Capital Sales, Purchases

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

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

**Capital Sales,
Purchases
Example**

Planned Capital Sales and Purchases

Year One

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



5. Loan summary

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

Loan Summary Example

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

6. Financial Performance Indicators

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

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

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

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

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

The example form shows the ratios for Central Valley Greenhouses.

Financial Performance Indicators Example

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

The Long-Range Plan

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

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

Long-Range Planning Example

Business Goals and Objectives

- Maintain above average yields through employee upgrading and the implementation of advanced growing techniques
- Achieve low staff turnover rate through effective personnel management and financial incentive program
- Control insect and disease problems without the use of pesticides on a consistent basis
- Expand tomato production area to 20,000m² in 5 to 8 years

Major Milestones

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

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

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

Other Assistance (non financial) Required

- Quota for increased production as a result of expansion

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.

Reprinted from *An Industry Consensus on Agricultural Financial Accounting Terminology and Reporting Policies*, Deloitte and Touche Management Consultants, Edmonton, Alberta 1991.