

# AGRI-FACTS

Practical Information for Alberta's Agriculture Industry

Revised December 2015

Agdex 811-12

## Review Your Finances: Making the Money Work (Step Five)

### Agriculture Business Alternatives

*Agriculture Business Alternatives is a series of factsheets designed to help you evaluate the feasibility of starting a new agricultural or rural-based business. The worksheets help you define the critical information needed to move your idea forward.*

After reviewing and identifying your business production requirements, your idea for a new enterprise is really taking shape. The next step is to add financial figures into the picture to find out if your idea is financially viable for you and your family.

In the previous factsheet, *Assess Your Resources: Examining Production Requirements (Step Four)*, Agdex 811-11, you identified the resources needed for your new agricultural enterprise. This factsheet will help determine the amount of capital you need for your new enterprise. Follow the steps:

- 1) Create a cash flow projection:  
build a financial picture.
- 2) Evaluate your cash flow projection: is there a surplus or a deficit?
- 3) Obtain financing: find sources for funding the business.

Inadequate cash flow, as a result of higher-than-expected expenses or lower-than-expected sales, is one of the most common reasons new business ventures do not succeed. Cash flow projections allow you to examine expected inflows and outflows in detail for the new enterprise. Then, you can plan for those effects on the business.

### Create a cash flow projection

A cash flow projection is a summary of the amount of cash coming into and going out of the business over a given period, generally one year. You can create a monthly or quarterly cash flow projection if it is necessary for you to identify the seasonal differences of your new venture.

Include at least three years of figures in your cash flow projection for the new venture. This time will cover the periods from start-up (with higher expenses like the purchase of extra supplies and equipment) through to when your income stabilizes.

The year three projection typically uses sales targets outlined at the market research stage (*Identify Your Market: Right Buyer, Right Price*, Agdex 811-10) and outlines a representative yearly income for the business.

*Look at the  
financial figures  
for your new  
enterprise*

If you think your new venture will not generate any revenue in the first year, extend your projections out five to seven years. With some agricultural products – like saskatoon berries – production is not viable until the third or fourth year after the crop has been planted.

### Types of cash flow calculations

There are two ways to prepare a cash flow projection:

- **Enterprise-based cash flow:** this method examines whether the new enterprise can stand on its own. This method can be used to compare two or more

potential new enterprise ideas. Complete **Worksheet 1: Enterprise-based Cash Flow**.

- **Whole farm cash flow:** this approach is used if the current farm business is being altered or replaced by the new venture to analyze whether sufficient income will be generated by the new venture to cover existing financial obligations. Complete **Worksheet 2: Whole Farm Cash Flow**.

In your cash flow calculations, do not include non-cash income (that is, gain in asset value) or non-cash expenses (that is, depreciation).

The following chart shows what should be included in each of these cash flow projections.

	<b>Enterprise-based</b>	<b>Whole Farm</b>
<b>Cash Inflow</b>		
Cash receipts	from the new enterprise only	all farm cash receipts plus receipts from the new enterprise
New loans	loans for new equipment and facilities	new loans for the current farm business loans for new equipment and facilities
Sale of assets	assets owned by the new business only e.g. a truck traded in on a larger one	sales of machinery, land, and livestock no longer needed as a result of the change(s)
Non-farm income	not included	included
Owner's contributions	included	included
<b>Cash Outflow</b>		
Cash expenses	for the new enterprise only	for the current farm business and for the new enterprise
Capital purchases	equipment, facilities and land for the new enterprise only	machinery, land, livestock, etc. for the current farm business plus equipment and facilities for the new enterprise
Debt payments	for the new enterprise only	for all loans
Owner's withdrawals	not included	included

### Determining which cash flow projection is best for you

Usually, you will want to prepare the enterprise-based cash flow projection first to ensure you have included all expenses needed for the new venture. You can then see how the new venture will contribute on its own.

Complete a whole farm cash flow projection when you want to see how the new enterprise fits with an existing farm business and contributes to your overall family living needs. Ideally, this new activity would be done when you want the new enterprise to bring in income at times when the existing business is slow.

*Example:* The Gideons consider a bed and breakfast enterprise, both on its own plus with their existing cattle operation.

### Gideon – Bed and Breakfast Enterprise – Cash Flow Projection

<b>Cash Inflow</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Average Future Year</b>
<b>Cash receipts</b>			
Bed and breakfast revenue	6,960	10,440	13,920
Total cash receipts	6,960	10,440	13,920
<b>Sale of assets</b>			
Surplus machinery, real estate or other	0	0	0
<b>Money borrowed for capital purchases</b>			
New refrigerator	3,000	0	0
<b>Owner's contributions</b>			
Cash from personal accounts	500		
<b>Total inflow</b>	<b>10,460</b>	<b>10,440</b>	<b>13,920</b>
<b>Cash Outflow</b>			
<b>Cash expenses</b>			
Bed and breakfast start-up costs (decorating and supplies)	5,000		
Operating costs	3,220		
Total cash expenses	8,220	4,176	5,568
<b>Capital purchases</b>			
Real estate and buildings	0	0	0
Equipment – new refrigerator	3,000	0	0
<b>Debt payments</b>			
New refrigerator	730	730	
<b>Owner's withdrawals</b>	0	0	3,000
<b>Total outflow</b>	<b>11,950</b>	<b>4,906</b>	<b>8,568</b>
Cash surplus or deficit	(1,490)	5,634	5,352
Change in business bank balance	0	100	0

## Gideon – Whole Farm Cash Flow Projection

Cash Inflow	Year 1	Year 2	Average Future
<b>Cash receipts</b>			
Cattle sales	146,800	156,400	166,000
Bed and breakfast revenues	6,960	10,440	13,920
<b>Total cash receipts</b>	<b>153,760</b>	<b>166,840</b>	<b>179,920</b>
<b>Sale of assets</b>			
Surplus machinery, real estate or other			
<b>Money borrowed for capital purchases</b>			
Farm			
Bed and breakfast, new refrigerator	3,000		
<b>Non-farm income</b>			
Margaret's job	14,300	14,600	15,000
<b>Additional investment by owners</b>			
Cash from personal accounts	500	0	0
<b>Total inflow</b>	<b>171,560</b>	<b>181,440</b>	<b>194,920</b>
<b>Cash Outflow</b>			
<b>Cash expenses</b>			
Cattle	95,400	102,500	109,600
Bed and breakfast	8,220	4,176	5,568
<b>Total cash expenses</b>	<b>103,620</b>	<b>106,676</b>	<b>115,168</b>
<b>Capital purchases</b>			
Farm machinery and equipment	0	0	0
Livestock	0	0	0
Real Estate and buildings	0	0	0
Other – new refrigerator	3,000	0	0
<b>Debt payments</b>			
Cattle loans	26,500	26,500	26,500
Bed and breakfast, refrigerator loan	3,000		
<b>Owner's withdrawals</b>			
Family living expenses	42,000	42,000	42,000
<b>Total outflow</b>	<b>175,850</b>	<b>175,906</b>	<b>188,668</b>
Cash surplus or deficit	<b>(4,290)</b>	5,634	6,252
Change in business bank balance	0	100	0

*Note: For simplicity, these sample worksheets are done on a yearly basis. It is recommended you use a monthly cash flow projection to anticipate detailed fluctuations in cash flow. A computer spreadsheet program (like Excel) works well for this exercise.*

## What to include in your cash flow projection

### Cash inflow

Cash inflow includes all money coming into the business and/or household. For the new enterprise, include sales, charged fees, GST refunds, sale of assets, new bank loans and cash transferred from the owners' savings. For a whole farm cash flow projection, include farm cash receipts, off-farm income, new bank loans, cash taken from personal savings, gifts and other non-business income. Do not include non-cash items like a change in inventory or an increase in accounts receivable.

### Cash receipts

Cash receipts include all cash income from the new enterprise from sales, charged fees, GST refunds and interest earned. A whole farm cash flow projection includes those items generated by both the new enterprise and all current enterprises.

### Using the Gideon example:

*The Gideons projected a gradual increase in receipts for both the existing cattle operation and the new bed and breakfast enterprise. In Year 1, they estimated bed and breakfast cash receipts would be \$6,960, half of the expected value of \$13,920 for an average future year. In Year 2, they estimated an increase, but not to the full projected amount of Year 3.*

### Sale of assets

Asset sales are rare for a new enterprise in the early years. Once the enterprise owns a piece of equipment or vehicle that is traded in, the value of the trade-in would be recorded here. Sometimes, surplus equipment from an existing business sold in Year 1 is used to help finance the new enterprise, and that should be noted on the whole farm projection. Sale of real estate can take longer, so include this type of asset sale in Year 2 or later. Do not include the sale of items already accounted for in the cash receipts section.

### Loans for capital purchases

If you borrow money for capital items – for either the new enterprise or the existing business – include loans in the cash inflow section of the projection.

### Using the Gideon example:

*The Gideons will borrow \$3,000 for a larger refrigerator for the bed and breakfast business. The loan amount is entered as a cash inflow in Year 1 only as no other capital purchases are anticipated for future years.*

## Non-farm income

This category is typically entered only on the whole farm projection. Include off-farm jobs (net amount), inheritances, gifts, interest on investments, rental income from non-farm properties, etc. You can also include estimated future wage or salary increases for off-farm jobs.

## Cash from personal accounts

Calculate how much personal cash will be spent on new enterprise expenses or capital items. Many new enterprises depend mainly on a family's savings in start-up years. Potential lenders may want to see you contributing your savings to the enterprise to show you are committed to the project. You can also consider a plan where personal funds are brought in over several years.

## Cash outflow

Cash outflow includes everything spent by the business in one year. For the whole farm cash flow, include expenses for both enterprises as well as family living expenses.

## Cash expenses

This section should include only business expenses like wages, utilities, supplies and cost of goods sold. Business expenses will likely be lower in Years 1 and 2 than in the average future year. For a whole farm cash flow projection, family and household expenses would be included in the owner's withdrawal section. Interest expenses are noted in the debt payments section.

### Using the Gideon example:

*The Gideons estimated that the bed and breakfast enterprise would have an initial one-time expense of \$5,000 for towels, bedding and redecorating. They also projected first-year operating expenses of \$3,220. As the bed and breakfast enterprise attracted more clients, operating expenses increased to \$5,568 for an average future year. For the whole farm cash flow projection, they indicate a gradual increase in cattle expenses from \$95,400 in Year 1 to \$109,600 in an average future year.*

## Capital purchases

For a new enterprise, the early years will likely have most capital purchases. List the full price for each capital purchase and make sure the dollar value of the purchase in the cash outflow section equals the dollar value in the cash inflow section. If money is borrowed to buy an asset, enter the purchase price in the year the debt is incurred.

## Debt payments

Enter total annual debt payments on money borrowed to purchase capital items for the new enterprise, including principal and interest. For the whole farm cash flow

projection, list annual debt payments for existing loans (farm mortgage, equipment loans, car loans), new farm loans plus the new venture.

To arrive at a projected debt repayment cost (if you have not yet secured the loan), estimate the amount of the total annual payments by using an online loan amortization calculator found at any banking website or by Googling "loan amortization calculator." You will need the total loan amount, the interest you expect to pay and the term of the loan to arrive at an estimated figure.

## Owner's withdrawal

For the whole farm cash flow projection, the owner's withdrawal includes the total yearly family living expenses (that is, groceries, clothing, vacations and income tax payments). For a new enterprise, it is common not to have an owner withdrawal in the early years.

# Evaluate your cash flow projection

The cash flow projection details you how much debt the new enterprise will need and whether the business can meet all its financial obligations. Calculate the totals on your **Worksheet 1** and/or **Worksheet 2** to see if you have a cash surplus or a cash deficit.

$$\begin{array}{r} \text{Total cash inflow} \\ - \text{Total cash outflow} \\ \hline = \text{Cash surplus (if amount is positive) or} \\ \text{Cash deficit (if amount is negative)} \end{array}$$

Use the following steps to manage cash flow deficit periods.

### Step 1

If the total cash flow for the year is positive, proceed to Step 2. If not, your business requires more financing than is currently available. See the section on "Sources of financing for agriculture-related business enterprises" at the end of this factsheet.

### Step 2

Examine the cash surplus or deficit for each month. You will need funds in a bank account, or an operating loan or credit line to cover a deficit. Include these funds on **Worksheet 1** and/or **Worksheet 2**. If cash outflows for the new enterprise occur at the same time as the existing business, you may experience a significant cash flow crunch.

### Step 3

Identify which month has the highest (projected) cash shortfall and multiply by 12. This is the total amount you need for a yearly operating loan or additional cash infusion to cover cash outflows.

## Step 4

Ensure the operating loan balance returns to zero by the end of the year (or by the end of the loan period). Income from the operation should pay down operating expenses first. Capital purchases should be made only with term bank loans, never with an operating loan.

## Step 5

Once you have a positive cash flow projection for the year, proceed to the next stage. Keep this document handy and check the cash flow projection regularly once you start your new enterprise to ensure you are on track.

# Obtain financing

To start a new enterprise, it is common for many entrepreneurs to borrow money. Arranging adequate financing can help ease the transition to the new business and give the business stability in those uncharted start-up years.

A cash flow projection is an indispensable document when preparing a loan proposal. Your goal is to have a commercial lender really understand your business and see that you have done your homework.

## Approaching a lender

In Alberta, there are many different sources of financing for agriculture-related businesses, and lenders who truly understand the unique characteristics of a farm-based enterprise. These sources include (but are not limited to) the following:

- family and friends
- local private investors (patient capital)
- personal or business bank loan or credit line
- suppliers or retailers who offer short-term credit
- grant funding through the Alberta government
- federal government-based financing
- crowdsourcing (through online websites like Alberta BoostR or Kickstarter)

Shop around so you know all your options. For more sources of financing, refer to the last page in this document.

Be prepared to answer the questions a potential lender may ask:

- What is the business idea?
- Can you show there is a market?
- How will the business build profitability?
- How much money is needed to finance the new enterprise?
- What sources of financing will you use?

- Can you repay the money and on what schedule?
- Can you repay the loan if the business does not do as well as planned?
- What is your track record for repaying loans in the past?
- What is your past performance as a manager or profit-maker?

## Sources of financing for agriculture-related business enterprises

Here are a number of agencies and businesses that offer debt financing for agriculture and agri-food businesses.

**Agriculture Financial Services Corporation (AFSC):** provides access to capital through lending products and services to support Alberta's agriculture and commercial industries and sectors.

1-877-899-2372 [www.afsc.ca](http://www.afsc.ca) (click on Lending)

**Alberta BoostR:** a social-based financing system offered by ATB Financial where individuals come together and pool their money in support of a business idea initiated by other people. [www.albertabostr.ca](http://www.albertabostr.ca)

**Alberta Women Entrepreneurs (AWE):** provides unique programs and services to women in business through mentoring, advising, financing as well as skills and network development.

1-800-713-3558 [www.awebusiness.com](http://www.awebusiness.com)

**Agriculture and Forestry's Growing Forward 2:** provides programs and services to achieve a profitable, sustainable, competitive and innovative agriculture, agri-food and agri-products industry.

Call toll free 310-FARM (3276)

[www.growingforward.alberta.ca](http://www.growingforward.alberta.ca)

**AVAC:** helping bridge the critical investment gap that exists between innovative ideas and commercial business success. AVAC invests in promising, early-stage commercial ventures with a focus on agriculture and food technologies. 403-274-2774 [www.avacltd.com](http://www.avacltd.com)

**Business Development Bank of Canada (BDC):** offers business loans and consulting services to help Canadian businesses grow.

1-877-232-2269 [www.bdc.ca](http://www.bdc.ca)

**Farm Credit Canada (FCC):** provides financing, insurance, software, learning programs and business services to Canadian producers and agri-business and agri-food operators.

1-888-332-3301 [www.fcc-fac.ca](http://www.fcc-fac.ca)

**Western Economic Diversification (WD):** working to diversify the western economy while improving the quality of life of western Canadians by focusing on business development, innovation and community development.

1-888-338-9378 [www.wd.gc.ca](http://www.wd.gc.ca)

## Your next steps forward

Congratulations on identifying how you will finance your new enterprise. The next step includes a focus on profit to make sure your new business succeeds as soon as possible.

This factsheet is one in a series of Agriculture Business Alternatives factsheets that help you evaluate the feasibility of starting a new agricultural or rural-based business.

For the next step in this process, see *Analyze your Profitability: Managing your Growth (Step Six)*, Agdex 811-13.

## References

The Agriculture Business Alternatives factsheets have been adapted with permission from: *Farming Alternatives - A Guide to Evaluating the Feasibility of new Farm-Based Enterprises* (NRAES-32, October 1988, ISBN 0-935817-14-X). This publication was a project of the Farming Alternatives Program, Cornell University, Warren Hall, Ithaca, NY 14853 (607) 255-9832; and Natural Resource, Agriculture and Engineering Service (NRAES), Cornell University, 152 Riley-Robb Hall, Ithaca, New York (607) 255-7654.

## For more information

### Agriculture Business Alternatives factsheet series:

*Define Your Goals: Personal and Family Considerations (Step One)*, Agdex 811-8

*Consider Your Options: An Inventory of Possibilities (Step Two)*, Agdex 811-9

*Identify Your Market: Right Buyer, Right Price (Step Three)*, Agdex 811-10

*Assess Your Resources: Examining Production Requirements (Step Four)*, Agdex 811-11

*Review Your Finances: Making the Money Work (Step Five)*, Agdex 811-12

*Analyze Your Profitability: Managing Your Growth (Step Six)*, Agdex 811-13

*Launch Your Business: Time for Action (Step Seven)*, Agdex 811-14

*Build Your Network: Reaching Out for Support and Advice (Step Eight)*, Agdex 811-15

Prepared by  
Alberta Agriculture and Forestry

More information, contact:  
Alberta Ag-Info Centre  
Call toll free: 310-FARM (3276)  
Website: [agriculture.alberta.ca](http://agriculture.alberta.ca)

RV12/15

# Ag-Alternatives

## Step 5 - Worksheet 1: Enterprise-based Cash Flow

Projection for \_\_\_\_\_ (year)

Description	Months												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
<b>Cash Inflow</b>													
Business income													
Refund, grants													
Sale of assets													
New capital loans													
Owner's contributions													
<b>Total Cash Inflow</b>													
<b>Cash Outflow</b>													
Cash expenses													
Goods purchased for resale													
Supplies													
Wages													
Utilities													
Rent													
Insurance													
Capital asset purchases													
Debt payment													
Owner's withdrawals													
<b>Total Cash Outflow</b>													
<b>Cash Surplus or Deficit</b>													
Operating loan balance													
Cash (or bank balance)													

# Step 5 - Worksheet 2: Whole Farm Cash Flow

Projection for \_\_\_\_\_ (year)

Description	Months												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
<b>Cash Inflow</b>													
Cash receipts													
Sale of assets													
Machinery													
Real estate													
Other													
New capital loans													
Nonfarm income													
Additional investments													
<b>Total Inflows</b>													
<b>Cash Outflow</b>													
Cash expenses													
Supplies													
Wages													
Utilities													
Capital purchases													
Machinery													
Livestock													
Real estate/buildings													
Other													
Debt payments													
Farm													
Other													
Owner's withdrawals													
<b>Total Cash Outflow</b>													
<b>Cash Surplus or Deficit</b>													
Operating loan balance													
Cash (or bank balance)													