

FARM VIABILITY COHORT: TRAIN THE TRAINER

NOVEMBER 2022

REBECCA FRIMMER

KITCHENTABLECONSULTANTS.COM



• WHO WE ARE

**MAKING FARM & FOOD
BUSINESSES PROFITABLE
FOR GOOD.**



WHAT WE DO

ADVISING & COACHING

WORKSHOPS & TRAINING

STRATEGIC PLANNING

BOOKKEEPING

MARKETING

LEADERSHIP COHORTS

OUR 4 TENETS

WE'VE WALKED A MILE IN YOUR SHOES.

Our team has spent more time in the trenches than consulting. We know what it feels like to make payroll, hire, fire, motivate, sell and run businesses.

THERE'S NO BS

We're not worried about our next paycheck, we will tell you what we're thinking, even if you don't like it and even if we're wrong—we're going to be honest, period.

WE ROLL UP OUR SLEEVES, RIGHT ALONGSIDE YOU.

We act like a partner without equity.

WE ARE COMMITTED TO PROVIDING YOU MORE VALUE THAN THE COST OF OUR SERVICES.

What keeps us up at night is to ensure you make more money than our costs. We also aim to teach you the skills you need to graduate from our services.

INTRODUCTION



Rebecca Brumberg Frimmer
Morro Bay, California

- KTC Partner; Senior consultant since 2014
- Former GM of urban farm nonprofit, E-commerce and marketing manager in specialty food and hospitality
- Business owner (all or part) of 4 businesses including an urban farm
- MBA, small business development
- Financial analysis, coaching/strategy, business planning, training

FARM VIABILITY TRAINING

MODULE I

INTRO TO FARM FINANCES: COA AND WHY IT MATTERS

PRESENTED BY




PROVIDED BY





MOD 1 AGENDA

- Chart of Accounts
- Reconciling
- Profit + Loss
- Group Exercise
- Balance Sheet
- Group Exercise
- Concepts
- Q/A



The best service we
can do is to help
farmers excited
about using an
accounting system.



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ACCOUNTING SYSTEM

Why is financial record keeping important?

Recording my farm's sales activities



Recording expenses



Recording banking & credit card activities



- Getting invoices paid!
- Tracking cash flow
- Knowing costs
- Value of what you've invested
- Forecasting year-end profit
- Knowing when you need a loan or credit
- Planning for next year
- Can I afford this ____ ?
- Did I deposit that payment?
- Where'd that cash go?

ANALYSIS TOOLS

How does that chart translate into operating procedures for farmers?

Weekly



- Sales Receipts and Invoices
- Recording Expenses
- Labor Use vs Projections

Monthly



- Comparing Actuals vs Budget
- Reconciling Accounts
- Monthly Financial Review and Dashboard of Key Metrics/Ratios

Annually
and as needed



- Annual Strategic Plan and Actions
- Pricing by Customer & Crop
- Building a Budget
- Using Opportunity Assessment Tools for Investment Priorities



"What gets measured, gets managed"

-Peter Drucker





○ CHART OF ACCOUNTS

What is it, and why does it matter?



CHART OF ACCOUNTS

Provides a complete listing of every account in an accounting system.

Income and Expense
Accounts



Profit and Loss
Statement

Asset, Liability, and
Equity Accounts



Balance Sheet
Statement

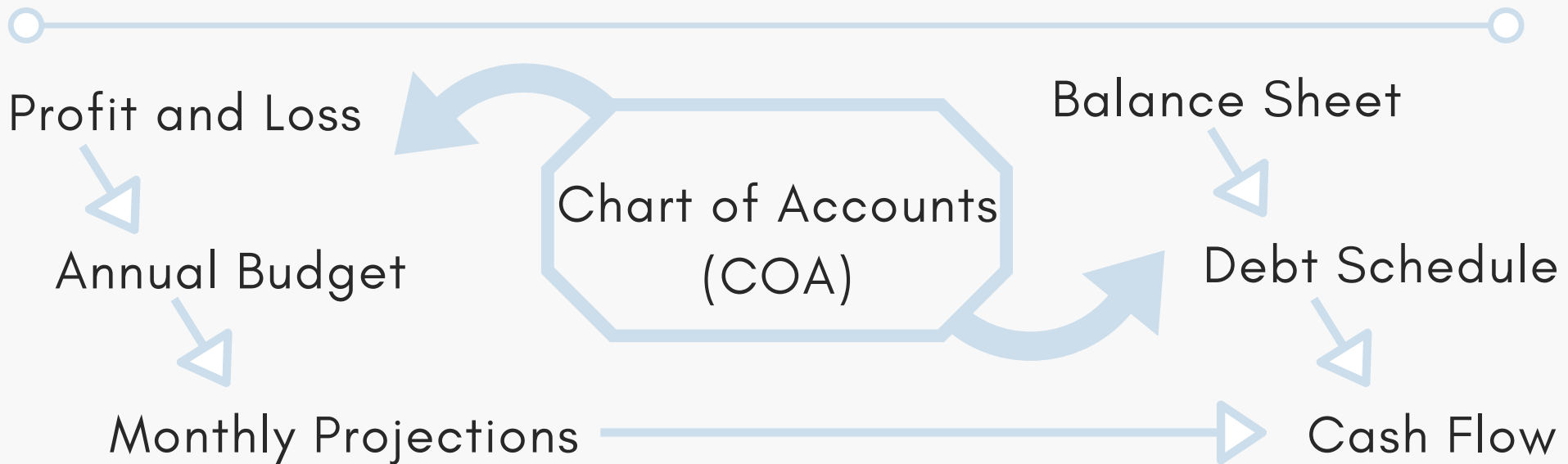


CHART OF ACCOUNTS

The Basic Theory:

**It boils down to
seven types of
numbers**

PROFIT+LOSS ACCOUNTS

- Income
- Cost of Goods Sold (COGS)
- Labor
- General and Admin (G+A)
- Operating Expenses
- Fixed Expenses
- One-Time Expenses

CHART OF ACCOUNTS

Overview

Structure of the
Profit + Loss (P+L)
Statement

- Income
- Cost of Goods Sold (COGS)

→ **Gross Profit**

- Operating Expenses
- Labor
- General + Administrative
- Fixed Expenses
- One-Time Expenses

→ **Net Profit**

CHART OF ACCOUNTS

Parent Categories
vs
Subcategories

- General + Administrative
 - ➔ Office supplies & postage
 - ➔ Marketing expenses
- Operating Expenses
 - ➔ Repairs and maintenance
 - ➔ Fuel

Tip: Can't remember what types of transactions go where?

Create a legend for your chart of accounts. Consistency is key.

CHART OF ACCOUNTS

Why does proper
categorization matter
so much?

We need to see trends!

- Budget accuracy
- Consistency for month to month comparisons to identify trends
- Decision making for how to spend - what can change vs what can't
- Bonus! Benchmarking with peers

INCOME STREAMS

Keeping it Simple

You don't an account
for every little thing.

- Set up income accounts in the Chart of Accounts (COA) **based on enterprises**, not customers.
 - Produce, chicken, resale instead of market 1, market 2, market 3.
- Don't complicate the COA!
 - If the expense is a smaller amount annually than you'd budget for, don't create a separate account. Instead, group them in a more general account and add memos for transactions.

COST OF GOODS SOLD (COGS)

Cost of Goods

Sold (COGS) includes the inputs that are DIRECTLY part of the thing you are selling.

- Cost of Goods Sold can be crucial in assessing whether to keep, drop, or expand an enterprise!
- Tracked properly, COGS provide clarity and power for decision making

GROSS PROFIT
VS
GROSS MARGIN

Income
(minus) COGS =
Gross Profit

Gross Profit
(divided by) Income =
Gross Margin

(e.g., \$130k of income, less \$50k of COGS equals \$80k gross profit, resulting in 61.5% gross margin. You maintained over 60% of your total sales to cover all your other expenses.)

GROSS PROFIT VS GROSS MARGIN

- GP is just Income minus COGS
- GM tells you how your GP stacks up as a % of your total sales

	Low Income & Reasonable COGS	High Income & High COGS
Total Income	\$100,000	\$500,000
Total COGS (with Direct Labor)	\$50,000	\$450,000
Gross Profit (Income less COGS)	\$50,000	\$50,000
Gross Margin (Gross Profit / Total Income)	50%	10%

Gross Profit is the same in both scenarios, but
Gross Margin is vastly different!

GROSS MARGIN BY ENTERPRISE

Gross margin can be calculated by enterprise if the COA is set up properly.

To analyze gross margin by enterprise (produce vs chicken), you need an income account and a corresponding COGS account - i.e., 'Produce Income' and 'Produce COGS'.

Then you can make decisions about growth, pricing, or streamlining using the story your P+L tells.

CHART OF ACCOUNTS

Critical Point for Trainers

- Farmer can get stuck in COGS vs. Operating Expenses
- Biggest opportunities for learning:
 - Consistency is #1 the most important choice. Put the expense in the same place every single time.
 - Drilling down into COGS and finding that margin. COGS vs. Operating expenses will clarify themselves at that point.
 - Labor should often be portioned into direct labor / COGS and indirect labor / G&A, but that's next level. We advise to walk before you run.



RECONCILING

Why it matters and how it helps you



FROM FEED TO FINISH



It should happen by
the 10th Day of Each
Month

Gather current monthly statements for all accounts, with or without feeds.

Categorize transactions. (Ideally this happens weekly.)

Use statements to double check the transactions in your accounting system.

Do it have a 'zero' difference?

FROM FEED TO FINISH

There are several things that could go wrong and require troubleshooting.

Don't Despair!



- User error with an incorrect Add, Match, or Transfer
- Duplicates in the feed that both end up in the Register
- Issues with already reconciled transactions that were modified or deleted
- Dates on feed transactions don't match dates on actual statement
- QBO making poor suggestions and blindly accepting them.

**CLEAN
ACCOUNTING
= EASY
BUDGETING**

Wouldn't you rather have
a guide to your
spending?

- Planning
- Mid-season decision making
and course correction
- Accountability for all
- Simple building block of
historical P+L
- We'll demo KTC's budget
building model, step by step

CHART OF ACCOUNTS

Critical Point for Trainers

- Reconciling can get really challenging with connected accounts like square or stripe. They need to decide if they'll do a week-end entry or integrate.
- Venmo doesn't reconcile. Period. What are they doing over there?!
- Biggest opportunities for learning:
 - All gateways for payment need an account, even if it's not connected.
 - Holding cash? Treat it like a "cash box" bank account.



CHART OF ACCOUNTS

Critical Point for Trainers

- The Farm Vitality chart of accounts is like a menu. They can just pick what they want and the rest goes away.
- When programming this in QB, start with the parent categories – they don't hold any data – they function to collapse the document.
- Biggest opportunities for learning:
 - Excel is a bridge to QB. It's a place to start.
 - Unreconciled books are not accurate.
 - The cash in the bank is not a good data point!



PROFIT AND LOSS REPORT

An accounting system is a tool.
Make sure it's one YOU can use!

PROFIT + LOSS

This financial statement is a history of income and expenses, categorized line by line.

Income and expenses are recorded and grouped by type with ongoing bookkeeping in order to generate this report accurately.

The Profit and Loss (P+L) does **not** include assets and liabilities, such as property and loans.

PROFIT + LOSS

What are we trying to understand with this report?

- Comparisons showing changes, which create questions around income and expenses
- Come to conclusions and take action based on the activity
- Gain insight from looking at key ratios

PROFIT AND LOSS

Income
COGS
GP/GM
Labor

Small Produce Farm						
Profit and Loss						
January - December 2021						
	2019		2020		2021	
	Total		Total		Total	
Income						
400 Produce Income	145,017		187,912		216,905	
Total Income	\$ 145,017		\$ 187,912		\$ 216,905	
Cost of Goods Sold						
500 Produce COGS						
501 Packaging	0		0		801	
502 Seed & Plants	10,768		13,997		7,636	
503 Single Use Supply	0		0		162	
Total 500 Produce COGS	\$ 10,768		\$ 13,997		\$ 8,600	
510 Resale Items Purchases	8,158		37,362		23,040	
Total Cost of Goods Sold	\$ 18,926		\$ 51,359		\$ 31,639	
Gross Profit	\$ 126,091	87%	\$ 136,553	73%	\$ 185,266	85%
Expenses						
600 Labor						
601 Salaries + Wages	24,796		55,888		55,671	
602 Payroll Taxes	8,603		18,457		22,976	
604 Worker's Comp Ins	0		0		1,017	
Total 600 Labor	\$ 33,399	23%	\$ 74,345	40%	\$ 79,664	37%

PROFIT AND LOSS

Detailed Expenses

	2019		2020		2021	
700 Operating						
701 Small Tools & Equipment	11,641	8%	8,871	5%	6,815	3%
702 Supplies	8,869	6%	16,768	9%	9,738	4%
703 Merchant Account Fees	568	0%	315	0%	140	0%
704 Gasoline, Fuel & Oil	4,204	3%	3,483	2%	4,485	2%
705 Fertilizers & Lime	721	0%	6,280	3%	5,118	2%
706 Equipment Lease or Rental	0	0%	5,354	3%	3,106	1%
707 Repairs & Maintenance	13,210	9%	3,399	2%	7,767	4%
708 Vehicles	12,876	9%	3,788	2%	828	0%
Total 700 Operating	\$ 52,089	36%	\$ 48,258	26%	\$ 37,997	18%
800 General + Admin						
801 Marketing Expense	1,008		1,067		1,513	
802 Payroll Services	350		572		624	
803 Food & Beverage Purchases	0		0		118	
804 Memberships & Dues	0		295		2,094	
805 Office Supplies	125		187		1,920	
806 Bank Charges & Fees	5		0		2	
Total 800 General + Admin	\$ 1,488	1%	\$ 2,121	1%	\$ 6,271	3%
900 Fixed						
901 Insurance						
901.1 General Liability	705		1,589		1,175	
901.2 Vehicles	1,287		2,078		2,105	
Total 901 Insurance	\$ 1,992		\$ 3,667		\$ 3,280	
904 Taxes + Licenses	1,248		2,049		5,646	
905 Utilities	4,996		4,163		5,133	
Total 900 Fixed	\$ 8,236	6%	\$ 9,879	5%	\$ 14,059	6%

P+L COMPARISON

One Time, Other, Net

	2019		2020		2021	
950 One Time Expense	0		0		20,265	
Total Expenses	\$ 95,212	66%	\$ 134,603	72%	\$ 158,256	73%
Net Operating Income	\$ 30,879	21%	\$ 1,950	1%	\$ 27,010	12%
Other Income						
960 Agricultural Grants	705		29,729		4,477	
970 Consulting Income	1,250		22,930		16,538	
Total Other Income	\$ 1,955	1%	\$ 52,659	28%	\$ 21,015	10%
Other Expenses						
980 Owner Draw	4,820		12,841		5,986	
981 Health Ins	565		11,421		11,219	
982 Personal Rent	14,400		14,400		14,400	
983 Personal Utilities	329		1,711		3,075	
984 Child Care						
Total 980 Owner Draw	\$ 20,115		\$ 40,373		\$ 34,680	
Total Other Expenses	\$ 20,115		\$ 40,373		\$ 34,680	
Net Other Income	-\$ 18,160		\$ 12,286		-\$ 13,666	
Net Income	\$ 12,720	9%	\$ 14,236	8%	\$ 13,344	6%

P+L COMPARISONS: COLLAPSED

	2019		2020		2021	
	Total		Total		Total	
Income						
400 Produce Income	145,017		187,912		216,905	
Total Income	\$ 145,017		\$ 187,912		\$ 216,905	
Total Cost of Goods Sold	\$ 18,926	13%	\$ 51,359		\$ 31,639	
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Net Income	\$ 12,720	9%	\$ 14,236	8%	\$ 13,344	6%



GROUP EXERCISE

Let's practice building the P+L Accounts

CHART OF ACCOUNTS

Provides a complete listing of every account in an accounting system.

Income and Expense
Accounts

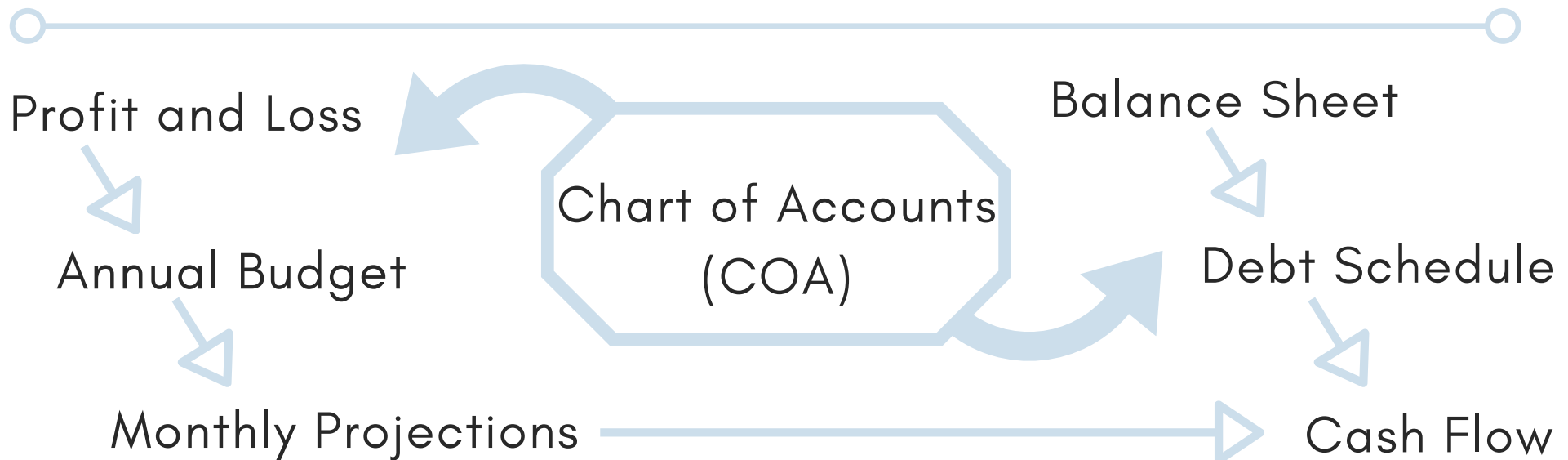


Profit and Loss
Statement

Asset, Liability, and
Equity Accounts



Balance Sheet
Statement



BALANCE SHEET

The Goal: Increase net worth over time

Liabilities

- Principal vs. Interest

Assets

- Depreciate vs. Appreciate

Corresponding liability is entered for assets with a lien/loan

- Land vs. mortgage
- Equipment vs. operating loan

Liabilities + Equity = Assets. OR... Net worth is calculated by taking Assets minus Liabilities. Net Worth could be a negative number.

	2019	2020	2021
ASSETS			
Current Assets			
Bank Accounts			
Business Checking	2,215	3,431	1,303
Cash Box	200	0	0
PayPal Account	0	0	0
Petty Cash	16	16	16
Savings	5	5	5
Total Bank Accounts	\$2,436	\$3,452	\$1,324
Accounts Receivable			
Accounts Receivable (A/R)	5,019	1,087	7,110
Total Accounts Receivable	\$5,019	\$1,087	\$7,110
Other Current Assets			
Undeposited Funds	268	0	0
Total Other Current Assets	\$268	\$0	\$0
Total Current Assets	\$7,722	\$4,540	\$8,434
Fixed Assets			
Farm Land	575,000	575,000	575,000
FMV Adjustment Land	25,000	50,000	75,000
Total Fixed Assets	\$600,000	\$625,000	\$650,000
TOTAL ASSETS	\$607,722	\$629,540	\$658,434

BALANCE SHEET

ASSETS



LIABILITIES AND EQUITY	2019	2020	2021
Liabilities			
Current Liabilities			
Accounts Payable			
Accounts Payable (A/P)	1,166	1,166	1,066
Total Accounts Payable	\$1,166	\$1,166	\$1,066
Credit Cards			
Amex	3,713	5,256	2,597
Mastercard	10,235	2,105	558
VISA		7,015	6,043
Total Credit Cards	\$13,948	\$14,376	\$9,198
Total Current Liabilities	\$15,114	\$15,542	\$10,264
Long-Term Liabilities			
Farm Land Mortgage	575,000	542,058	509,117
Notes Payable			
Ag Choice 1	3,070	20	0
Ag Choice 2	28,668	23,355	17,633
Family Loan	6,000	6,000	6,000
Member Loan	8,800	5,200	1,600
Tractor Financing Loan	7,642	5,164	2,685
Total Notes Payable	\$54,180	\$39,739	\$27,919
Total Long-Term Liabilities	\$629,180	\$581,797	\$537,035
Total Liabilities	\$644,294	\$597,339	\$547,299
Equity			
FMV Adjustments	25,000	50,000	75,000
Retained Earnings	-61,841	-61,571	-17,799
Net Income	270	43,772	53,934
Total Equity	-\$36,571	\$32,201	\$111,135
TOTAL LIABILITIES AND EQUITY	\$607,722	\$629,540	\$658,434

BALANCE SHEET

LIABILITIES + EQUITY

These are the long term liabilities that make up the debt schedule.

Monthly payments on each of these are added to calculate your total monthly "debt service".





WHY WE CARE

What's the number one reason farms fail?



CASH FLOW

What does it mean? How is it different from profitability?

Cash Flow

The movement of cash in and out of a business from day-to-day direct trading and other non-trading or indirect effects, such as capital expenditure, tax and dividend payments.

Profitability

When the profit earned from a company's normal core business operations remains a positive number – and potentially increases – over time.

Your P+L statement could be telling you that you're profitable, meanwhile, your checking account could be overdrawn. Why?

ACTIVITY

Balance sheet

- Red Flags exercise
- Spot the potential error

Why is balance sheet accuracy important?



BALANCE SHEET

Critical Point for Trainers - Is it all there

- Balance sheet determines net worth and fuels lender decision making.
- QB makes some really poor suggestions in the transaction feed leading to Balance sheet errors.
- Biggest opportunities for learning:
 - Where to look for obvious red flags
 - Does each loan have a corresponding asset? Or was it working cap (then cash/bank balance is the asset)?
 - Entering loan payments require a split transaction.

BALANCE SHEET

Critical Point for Trainers - One Time Expenses

- Balance sheet tends to get lost, farmers focus on P&L and cash.
- Capitalizing expenses onto the balance sheet can put blinder on.
- Biggest opportunities for learning:
 - Farmers CAN record expenses and move them to the BS later
 - This is why we recommend One Time Expenses and working with an accountant at the end of the year.
 - Build subs under One Time as needed
 - Keep owner draw on the P&L until year end.



**SNEAK
PEEK**

BREAKEVEN MODEL

1. Model a monthly budget based on your annual budget (P+L basis)
2. Create a debt schedule using your Balance Sheet
3. Subtract monthly debt service payments from monthly bottom line
4. Add back in any liability interest that may be in the P+L budget
5. Calculate to arrive at a net operating cash per month
6. Create a rolling cash calculation by month to find the cash gaps
7. Use KTC's Sensitivity tool in the budget model to find breakeven

You can also do a breakeven analysis over time (i.e, 2-3 years operating). The KTC Budget Model is a great place to start this process!



BUDGET + CASH FLOW

Feed for livestock	% of sales	2%	\$ 3,512	\$ 204	\$ 195	\$ 228	\$ 248	\$ 347	\$ 373	\$ 413	\$ 370	\$ 356	\$ 391	\$ 254	\$ 133
Repairs & Maintenance	% of sales	3%	\$ 5,268	\$ 306	\$ 293	\$ 341	\$ 372	\$ 520	\$ 559	\$ 619	\$ 555	\$ 535	\$ 587	\$ 381	\$ 199
Credit Card Process Fees	% of sales	2%	\$ 3,512	\$ 204	\$ 195	\$ 228	\$ 248	\$ 347	\$ 373	\$ 413	\$ 370	\$ 356	\$ 391	\$ 254	\$ 133
Sales Supplies for Market	% of sales	1%	\$ 1,756	\$ 102	\$ 98	\$ 114	\$ 124	\$ 173	\$ 186	\$ 206	\$ 185	\$ 178	\$ 196	\$ 127	\$ 66
Utilities	% of sales	4%	\$ 7,025	\$ 408	\$ 391	\$ 455	\$ 496	\$ 693	\$ 745	\$ 826	\$ 740	\$ 713	\$ 782	\$ 509	\$ 266
Rentals	% of sales	6%	\$ 10,537	\$ 612	\$ 586	\$ 683	\$ 745	\$ 1,040	\$ 1,118	\$ 1,239	\$ 1,111	\$ 1,069	\$ 1,173	\$ 763	\$ 398
Total Operating Expense			\$39,337	\$ 2,284	\$ 2,189	\$ 2,549	\$ 2,780	\$ 3,884	\$ 4,174	\$ 4,625	\$ 4,146	\$ 3,993	\$ 4,379	\$ 2,848	\$ 1,487
Uncategorized Expense															
Total Expenses			\$131,333	\$8,175	\$7,910	\$8,914	\$9,556	\$12,631	\$13,440	\$14,695	\$13,363	\$12,935	\$14,012	\$9,747	\$5,956
Net Operating Income			\$32,375	\$1,847	-\$143	\$149	\$288	\$1,265	\$1,495	\$5,117	\$8,804	\$6,338	\$1,658	\$445	\$5,112
Other Expenses															
Owner Draw	Budgeted	7000	\$ 7,000	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583	\$ 583
Childcare	Budgeted	10000	\$ 10,000	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833
Health Insurance, Owner	Budgeted	5000	\$ 5,000	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417
Total Owner Draw			\$22,000	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833
Reconciliation Discrepancies															
Total Other Expenses			\$22,000	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833	\$1,833
Net Other Income			-\$22,000	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833	-\$1,833
Net Income			\$10,375	\$13	-\$1,977	-\$1,685	-\$1,545	-\$568	-\$338	\$3,283	\$6,971	\$4,505	-\$175	-\$1,389	\$3,279
			<i>Add interest expense back in!!</i>	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208
			Monthly Debt Service	\$ 3,740	\$ 3,740	\$ 3,740	\$ 3,740	\$ 3,740	\$ 3,540	\$ 3,440	\$ 3,440	\$ 3,440	\$ 3,440	\$ 3,440	\$ 3,440
			Monthly Net Cash	\$(3,518)	\$(5,508)	\$(5,216)	\$(5,077)	\$(4,100)	\$(3,670)	\$ 52	\$ 3,739	\$ 1,273	\$(3,407)	\$(4,620)	\$ 47
															\$ (30,005)



The cash flow projection for this farm is dire. They need to rework their budget to cut expenses or increase sales in order to pay their annual debt service. The "Sensitivity" feature of the budget model helps an owner discover breakeven.



THANK YOU

QUESTIONS?

REBECCA B. FRIMMER

REBECCA@KITCHENTABLECONSULTANTS.COM

703.593.5420

