

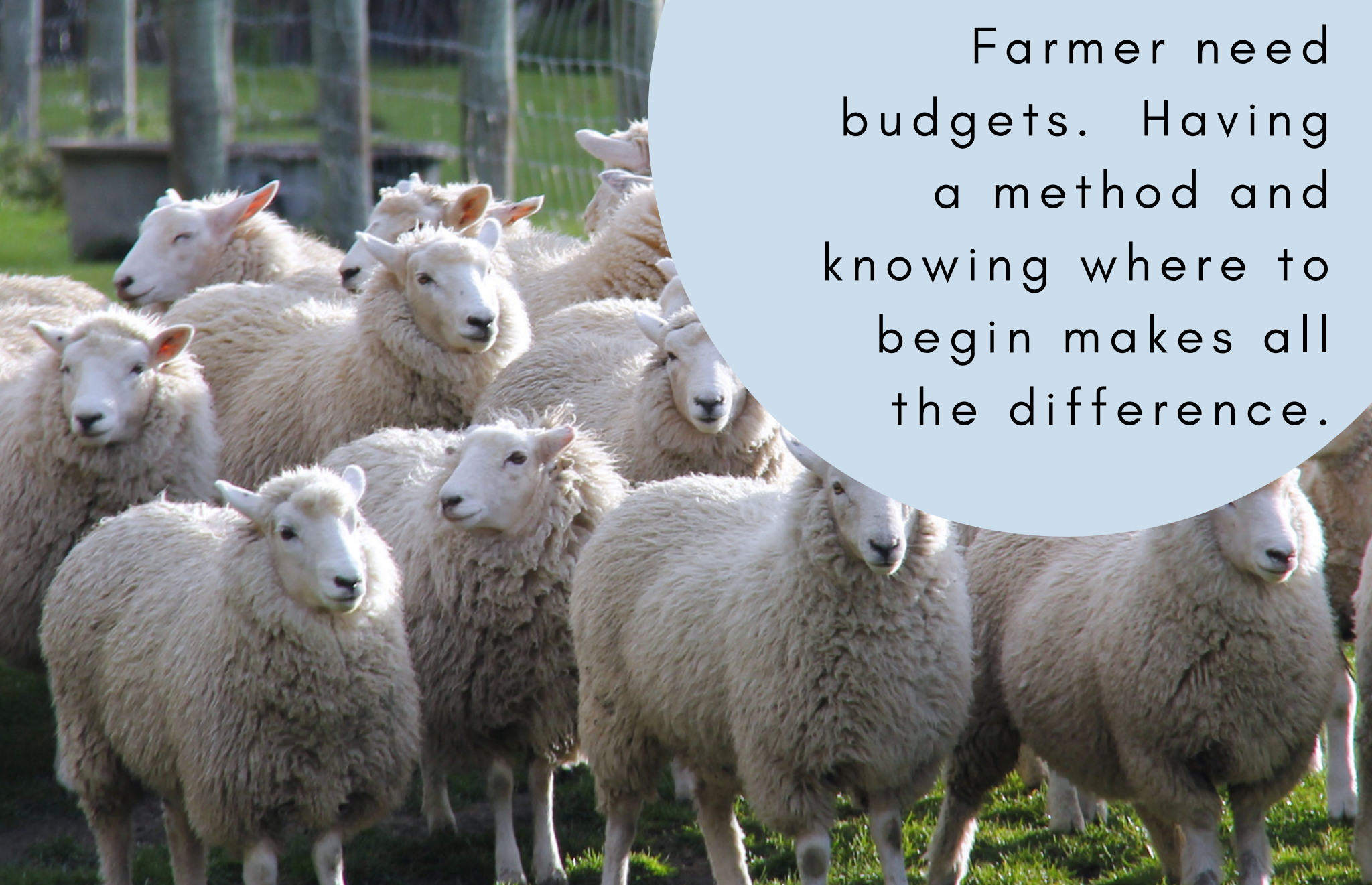
FARM VIABILITY COHORT: TRAIN THE TRAINER

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Farmer need budgets. Having a method and knowing where to begin makes all the difference.



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**BUDGET
BUILDING.
WHY BOTHER?**

- Sales goals
- Planning for profit
- Actuals vs budget to determine success
- Routine of administrating your business—not just selling and paying bills
- Historical records for future planning

**BUDGET
BUILDING
SMALL FARM**

Sample Budget
Assumptions

Existing multi-enterprise farm,
a few years growing.

Operates an 80-member CSA,
attends farmers' markets, sells
to a couple restaurants.

No historical accounting
data. Finances are tracked
in a spreadsheet.

They have to list their income
and expense categories in
order to create a budget.

BUDGET
BUILDING
BASIS INFO

Your Accounts

Build the list!
We want to think
of our income
and expenses in
terms of the type,
not the customer
or vendor.

***These are the accounts
within your COA that
generate a Profit + Loss
Statement.***

Within your farm's bookkeeping, an Income Account is a category to track the inflow of money (e.g., Vegetable Income, Mushroom Income).

An Expense Account tracks the outflow of money by type, i.e., seeds, repairs, packaging, labor, etc.

INCOME + EXPENSE ACCOUNTS

Review

The Basic Theory:

It boils down to
seven types of numbers

- Income
 - *Money inflow types*
- Cost of Goods Sold (COGS)
 - *Directly related to sales*
- Labor
 - *Fluctuates with sales*
- General and Admin (G+A)
 - *Discretionary and budgeted*
- Operating Expenses
 - *Fluctuates with sales*
- Fixed Expenses
 - *Budgeted and rigid*
- One-Time Expenses
 - *Projects; not annual*

INCOME + EXPENSE ACCOUNTS

Overview Ad Nauseam

*I told you I would say this
a million times -
remember it and you will
probably enjoy budgeting
and reading your P+L.*

- Income
- Cost of Goods Sold (COGS)

→ **Gross Profit**

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

→ **Net Profit**

PROJECTIONS FOR COMING YEAR

Sales + Labor

- Income and Labor might be two of the biggest categories in your budget
- Farmers respond well to slicing it down into smaller pieces
- Compare your sales goals to your predicted labor hours

PROJECTION MODELS

Sales Projections(By customer and by month for subtotals)

Customer	January	February	March	April	May
CSA	\$3,600	\$3,600	\$3,600	\$0	\$0
Farmers Market 1	\$4,000	\$4,000	\$4,000	\$12,000	\$16,000
Farmers Market 2	\$0	\$0	\$0	\$0	\$3,600
Restaurant					\$800
Farmstand	\$800	\$800	\$800	\$2,800	\$2,800
Totals/month	\$8,400	\$8,400	\$8,400	\$14,800	\$23,200

Labor projections(Laborer, rate, hours by month)

	\$/hr	Jan	\$\$\$	Feb	\$\$\$	Mar	\$\$\$	Apr	\$\$\$
Kim	\$12		\$0		\$0		\$0	160	\$1,920
Ivan	\$15		\$0		\$0		\$0	180	\$2,700
Hau	\$10	90	\$900	120	\$1,200	120	\$1,200	120	\$1,200
Matt	\$0	160	\$0	160	\$0	160	\$0	200	\$0
Market labor	\$100	16	\$1,600	16	\$1,600	16	\$1,600	16	\$1,600
Monthly hours totals		266		296		296		676	
Monthly dollars totals			\$2,500		\$2,800		\$2,800		\$7,420
Full time person equivalent per week		1.5		1.7		1.7		3.9	



**What are the two most important things you
need to know as an entrepreneur?**

"How to use Excel and plunge a toilet."
Ted LeBow | CEO | Kitchen Table Consultants



BUDGET BUILDING PROCESS

Starting Steps

Before you dive in,
gather ANY
historical records
of your farm
finances.

Steps 1+2: List and Organize Accounts

List your income accounts

E.g., Produce Income, Resale Income,
Chicken Income

List your **DIRECT** expense accounts (COGS)

E.g., Seeds, Packaging, Processing

List your **INDIRECT** expense accounts and categorize them

This is everything else you spend money
on and can be categorized into one of
the following groups: Fixed, General +
Admin, Operating, Labor, One-Time.

BUDGET BUILDING PROCESS

Building the Budget Structure

Step 3:

Label rows by "Driver" - Budgeted, % of sales (variable), or Fixed. Begin to enter factor assumptions per line.

Use the sales and labor projection models to assist you in predicting.

Remember the Parent Categories, which help you assign a Driver.

Step 4: Totals and Formulas

Total lines by Parent group and calculate profits.

Use a spreadsheet to sum the lines of each group and then calculate Gross and Net Profits using the totals for each group.

BUDGET BUILDING CRITIQUE

Critical Thinking Steps

Step 5: Complete Factor Inputs and Calculate Expenses as a Ratio of Total Income.

Take the total in each expense group and divide it by total Income. This helps you to compare financials with a peer!

Step 6: Add Sensitivity to Income and Challenge Your Assumptions

- Sales projections
- COGS
- Labor
- Acreage needed
- One-time expenses
- Profit goals to allow capital purchase

BUDGET DRAFTING

Critical Point for Trainers

- If they have QBO, start with a Profit and Loss export
- If it's a partial year, annualize it, if appropriate
- Integrate the debt schedule and balance sheet knowledge
- Biggest opportunities for learning:
 - Sensitivity analysis, and finding breakeven or profit goal.
 - Relationship between variable costs and sales.
 - "Budgeted" items are under the farmer's control. Evaluate actuals vs. budget monthly and adjust.

LET'S PLAY WITH THE PROJECTION
WORKBOOK AND BUDGET MODEL

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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.

LIABILITIES AND EQUITY	2016	2017	2018
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".



DEBT SCHEDULE

Eastbend Farm 2020 Debt Schedule			
Long Term Liabilities		Balance as of 12/2019	Monthly payment
	Farm Land Mortgage	\$509,117	\$2,450
	Ag Choice 1	\$0	\$0
	Ag Choice 2	\$17,633	\$590
	Family Loan	\$6,000	\$0
	Member Loan*	\$1,600	\$300
	Tractor Financing Loan	\$2,685	\$400
Total Long Term Liabilities		\$537,035	\$3,740

The \$3740 is your monthly "debt service", which should be subtracted from the monthly bottom line on your budget to calculate net operating cash.



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.




BUDGET DRAFTING



Critical Point for Trainers

- A farmer must know their debt schedule. When does it end?
How much every both?
- A good time to double check all loans have corresponding assets entered.
- Biggest opportunities for learning:
 - DIY amortization schedule. Using an app doesn't teach the farmer.
 - Preparing to budget by month – monthly vs. annual payments

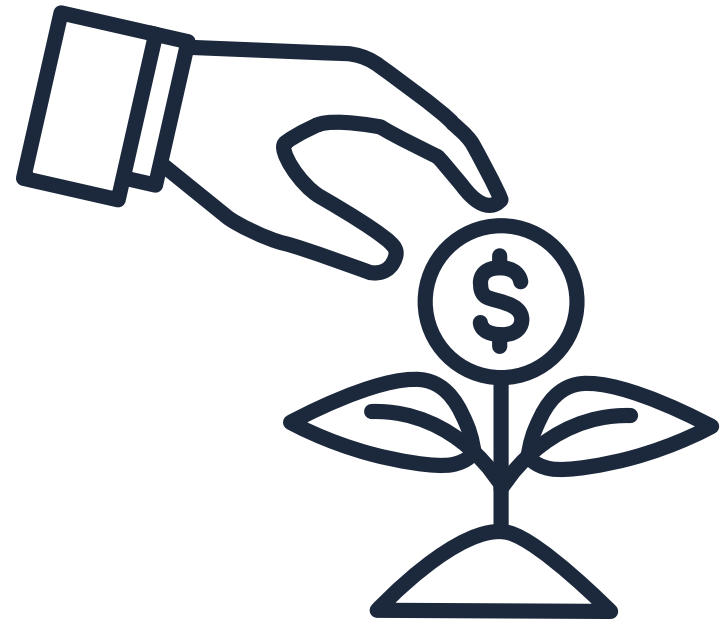


*Let's look at how to
tack on debt service
to the bottom of a
monthly budget.*

CASH FLOW

8 WAYS TO INCREASE CASH

1. Increase Cash Sales
2. Increase Gross Margins
3. Decrease Cash Expenses
4. Increase AP Balance
5. Decrease AR Balance
6. Sell Assets
7. Increase Liabilities
8. Equity Investments



CASH INFLOWS

Week starting	7/26	8/2
Starting cash	\$4,300	\$15
Incoming Cash		
Customer 1 - Farm market	\$800	
Customer 2 - CSA	\$500	
Customer 3 - Whole Foods	\$400	
Customer 4 - Feesers	\$1,500	
Customer 5 - Barn2Door	\$550	
Customer 6		
Customer 7		
Customer 8		
Online Sales		
Customer 10		
Other Wholesale Sales		
Loan Income / Grant		
Investors		
Asset Sales		
Total Inflows	\$3,750	\$0

Record the potential CASH inflows for the week - you'll have to make some educated guesses based on trends at market, your other sales channels, and which customers will be paying for invoices.

CASH OUTFLOW

There are several forms of cash outflow to consider. We've grouped them in this sheet to help with the projections and to generalize them, streamlining the process of entering your data. You can group monthly/weekly expenses that don't fluctuate and that you pay in the same week of the month.

Outflows		
Fixed Costs (gotta pay or negotiate hard!)		
Rent	\$600	
Utilities	\$375	
Interest + Debt Payment	\$260	
Phone/Internet	\$200	
Variable Costs (no terms)		
Direct Labor	\$1,600	
Management Labor	\$500	
Monthly Credit Card Payments	\$750	
LOC Payments	\$550	
Repair + Maintenance	\$1,450	
Accounts Payable Bills to Pay (Who am I paying (10 - 15)		
Vendor 1 - Greenhouse supply co.	\$1,000	
Vendor 2 - Hardware Store	\$200	←----- W
Vendor 3 - Seed Co.	\$550	
Vendor 4		
Vendor 5		
Vendor 6		
Vendor 7		
Vendor 8		
Vendor 9		
Vendor 10		
All Other Bills You CAN Pay		
Total Outflows	\$8,035	\$0



ROLLING CASH FLOW

Critical Point for Trainers

- Rolling cash flow is "urgent care" for the bank account. When do they need this tool?
 - If they can see 3 months out and know they cannot make all of their bill payments and purchases.
 - It only works if they update it every week
- Biggest opportunity for learning:
 - Accountability for all spending
 - How long it takes to collect receivables

LET'S DEMO THIS BEAST
OF A CASH FLOW MODEL



THANK YOU

QUESTIONS?

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