

# FARM VIABILITY COHORT

NOVEMBER 2022

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# FARM VIABILITY TRAINING

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## MODULE 5

# KTC TOOLBOX: OPPORTUNITY ASSESSMENT TOOL

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## MOD 5 AGENDA

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- Revisit the COA and Budget
- Demo: Debt vs Opp Tool
- Monthly Amortization Tool
- Q/A

# CHART OF ACCOUNTS

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

Income and Expense  
Accounts

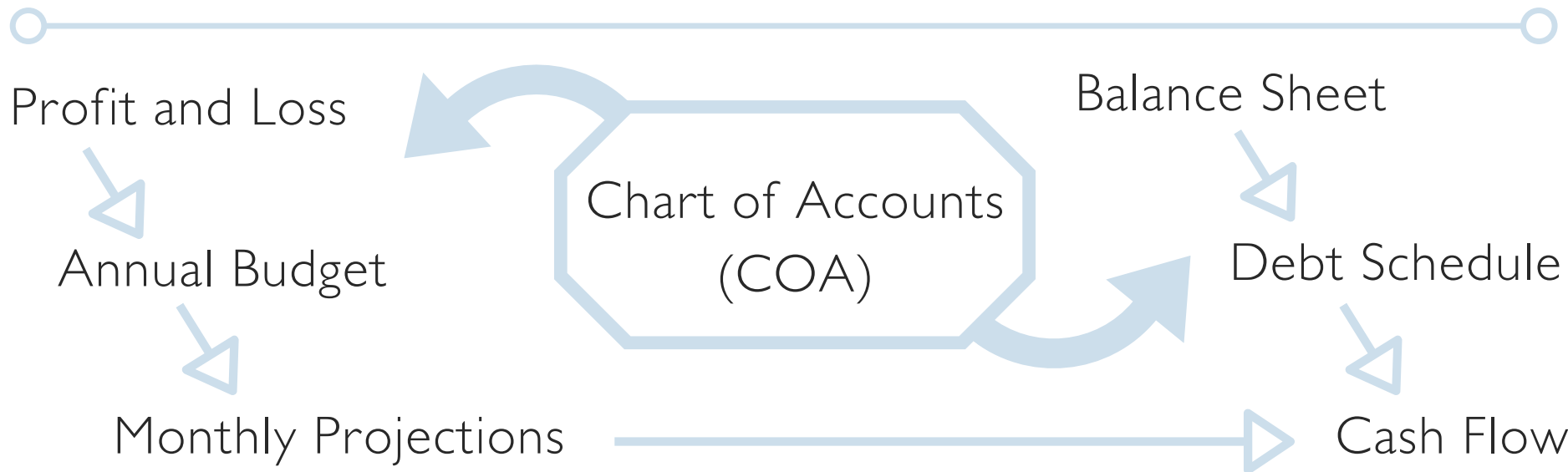


Profit and Loss  
Statement

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.

LIABILITIES AND EQUITY	2019	2020	2021
<b>Liabilities</b>			
<b>Current Liabilities</b>			
<b>Accounts Payable</b>			
Accounts Payable (A/P)	1,166	1,166	1,066
<b>Total Accounts Payable</b>	<b>\$1,166</b>	<b>\$1,166</b>	<b>\$1,066</b>
<b>Credit Cards</b>			
Amex	3,713	5,256	2,597
Mastercard	10,235	2,105	558
VISA		7,015	6,043
<b>Total Credit Cards</b>	<b>\$13,948</b>	<b>\$14,376</b>	<b>\$9,198</b>
<b>Total Current Liabilities</b>	<b>\$15,114</b>	<b>\$15,542</b>	<b>\$10,264</b>
<b>Long-Term Liabilities</b>			
Farm Land Mortgage	575,000	542,058	509,117
<b>Notes Payable</b>			
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
<b>Total Notes Payable</b>	<b>\$54,180</b>	<b>\$39,739</b>	<b>\$27,919</b>
<b>Total Long-Term Liabilities</b>	<b>\$629,180</b>	<b>\$581,797</b>	<b>\$537,035</b>
<b>Total Liabilities</b>	<b>\$644,294</b>	<b>\$597,339</b>	<b>\$547,299</b>
<b>Equity</b>			
FMV Adjustments	25,000	50,000	75,000
Retained Earnings	-61,841	-61,571	-17,799
Net Income	270	43,772	53,934
<b>Total Equity</b>	<b>-\$36,571</b>	<b>\$32,201</b>	<b>\$111,135</b>

# BALANCE SHEET

## LIABILITIES FOR DEBT SCHEDULE

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

	Balance as of 12/2021	Monthly payment	Original Date	Original Amount
<b>Farm Land Mortgage</b>	\$509,117	\$2,450	6/3/17	\$575,000
<b>Ag Choice 1</b>	\$0	\$0	11/18/10	\$25,000
<b>Ag Choice 2</b>	\$17,633	\$590	8/22/16	\$50,000
<b>Family Loan</b>	\$6,000	\$0	7/17/19	\$6,000
<b>Member Loan*</b>	\$1,600	\$300	5/1/19	\$10,000
<b>Tractor Financing Loan</b>	\$2,685	\$400	5/1/17	\$13,000
	\$537,035	\$3,740		

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



# BUDGET + CASH FLOW

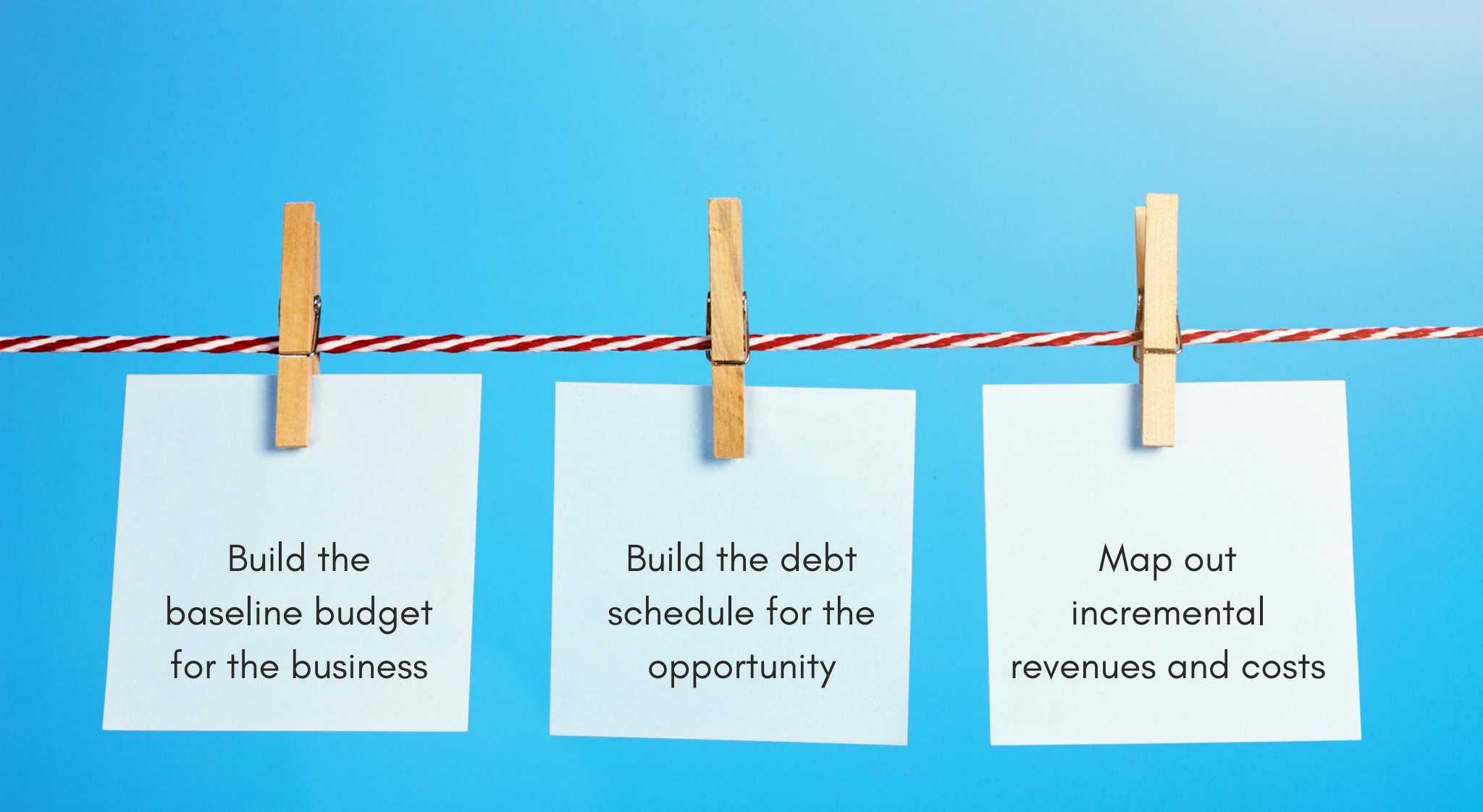
Feed for livestock	% of sales	2%	\$ 3,512	\$ 204	\$ 195	\$ 228	\$ 248	\$ 347	\$ 373	\$ 413	\$ 370	\$ 356	\$ 391	\$ 254	\$ 133
Repairs & Maintenance	% of sales	3%	\$ 5,268	\$ 306	\$ 293	\$ 341	\$ 372	\$ 520	\$ 559	\$ 619	\$ 555	\$ 535	\$ 587	\$ 381	\$ 199
Credit Card Process Fees	% of sales	2%	\$ 3,512	\$ 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
<b>Total Operating Expense</b>			<b>\$39,337</b>	\$ 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															
<b>Total Expenses</b>			<b>\$131,333</b>	<b>\$8,175</b>	<b>\$7,910</b>	<b>\$8,914</b>	<b>\$9,556</b>	<b>\$12,631</b>	<b>\$13,440</b>	<b>\$14,695</b>	<b>\$13,363</b>	<b>\$12,935</b>	<b>\$14,012</b>	<b>\$9,747</b>	<b>\$5,956</b>
<b>Net Operating Income</b>			<b>\$32,375</b>	<b>\$1,847</b>	<b>-\$143</b>	<b>\$149</b>	<b>\$288</b>	<b>\$1,265</b>	<b>\$1,495</b>	<b>\$5,117</b>	<b>\$8,804</b>	<b>\$6,338</b>	<b>\$1,658</b>	<b>\$445</b>	<b>\$5,112</b>
<b>Other Expenses</b>															
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
<b>Total Owner Draw</b>			<b>\$22,000</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>
Reconciliation Discrepancies															
<b>Total Other Expenses</b>			<b>\$22,000</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>	<b>\$1,833</b>
<b>Net Other Income</b>			<b>-\$22,000</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>	<b>-\$1,833</b>
<b>Net Income</b>			<b>\$10,375</b>	<b>\$13</b>	<b>-\$1,977</b>	<b>-\$1,685</b>	<b>-\$1,545</b>	<b>-\$568</b>	<b>-\$338</b>	<b>\$3,283</b>	<b>\$6,971</b>	<b>\$4,505</b>	<b>-\$175</b>	<b>-\$1,389</b>	<b>\$3,279</b>
			<i>Add interest expense back in!!</i>	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208
			<b>Monthly Debt Service</b>	\$ 3,740	\$ 3,740	\$ 3,740	\$ 3,740	\$ 3,740	\$ 3,540	\$ 3,440	\$ 3,440	\$ 3,440	\$ 3,440	\$ 3,440	\$ 3,440
			<b>Monthly Net Cash</b>	<b>\$(3,518)</b>	<b>\$(5,508)</b>	<b>\$(5,216)</b>	<b>\$(5,077)</b>	<b>\$(4,100)</b>	<b>\$(3,670)</b>	<b>\$ 52</b>	<b>\$ 3,739</b>	<b>\$ 1,273</b>	<b>\$(3,407)</b>	<b>\$(4,620)</b>	<b>\$ 47</b>
															<b>\$ (30,005)</b>



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.







Build the  
baseline budget  
for the business

Build the debt  
schedule for the  
opportunity

Map out  
incremental  
revenues and costs

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**NOW YOU'RE READY TO BUILD  
THE OPPORTUNITY ASSESSMENT**

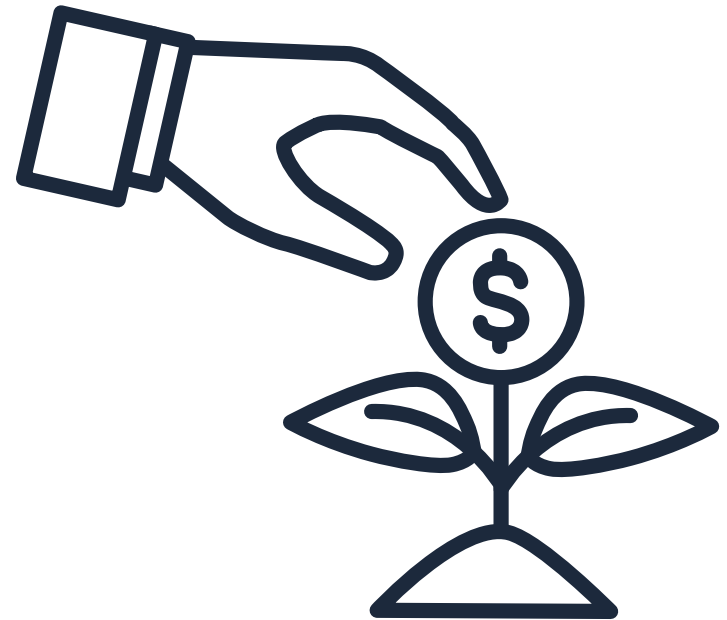
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# CASH FLOW

## 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

**REMINDER!**



# OPP ASSESSMENT

## Critical Point for Trainers

- This model builds onto their budget. It doesn't stand alone.
- We're reviewing the impact of a new enterprise, tool, or other investment on the big picture.
- Biggest opportunities for learning:
  - Their "why" - are they looking for cash or profit right away?
  - Discuss what their lender will be looking for.
  - How much debt are they already carrying? And what's their risk appetite?

# OPPORTUNITY VS DEBT

A worksheet that allows a farm to test new debt vs opportunity.

Budgeted Annual Income	\$150,000	
Budgeted COGS	\$65,000	
Budgeted Expenses	\$57,000	
Budgeted Net Profits	\$28,000	
Current debt payments, annual, principal only	\$9,024	Pulled from debt schedule
Budgeted Net Operating Cash	\$18,976	
<b>Opportunity:</b>	Equipment purchase for salad green sales to current customers, year round	
Projected Increase in Income	\$26,000	\$500/week in sales, year round
Projected Increase or Decrease in COGS		
Seeds, fertilizer, supplies	\$5,000	about \$90 per order
Packaging	\$2,000	\$40/order
Direct Labor	\$8,000	8-10 hours per week at \$15/hr
Projected Increase or Decrease in Expenses		
Operations: Logistics	\$1,200	\$20-25 / week in fuel
Operations: Repair & Maintenance	-\$3,000	Less maintenance cost on ...
Operations: Utilities	\$0	
G&A: Marketing	\$0	
G&A: Office related	\$500	
G&A: permits / lic / cert	\$1,000	
Labor: Specific role	\$0	
Labor: General	\$500	Discretionary
Overhead: Insurance	\$500	Increase in liability
Overhead: Rent	\$0	
Projected Increase or Decrease Net Profits	\$10,300	

You'll need a baseline budget to predict profit from a new venture

Create a mini P+L assumption for the opp

# OPPORTUNITY VS DEBT

A worksheet that allows a farm to test new debt vs opportunity.

Budgeted Annual Income	\$150,000
Budgeted COGS	\$65,000
Budgeted Expenses	\$57,000
Budgeted Net Profits	\$28,000
Current debt payments, annual, principal only	\$9,024
Budgeted Net Operating Cash	\$18,976

Keep great notes! You'll appreciate it when you return to this sheet for more analysis.

**Opportunity:** Equipment purchase for salad green sales to current customers, year round

Projected Increase in Income	\$26,000	\$500/week in sales, year round
Projected Increase or Decrease in COGS		
Seeds, fertilizer, supplies	\$5,000	about \$90 per order
Packaging	\$2,000	\$40/order
Direct Labor	\$8,000	8-10 hours per week at \$15/hr
Projected Increase or Decrease in Expenses		
Operations: Logistics	\$1,200	
Operations: Repair & Maintenance	-\$3,000	
Operations: Utilities	\$0	
G&A: Marketing	\$0	
G&A: Office related	\$500	
G&A: permits / lic / cert	\$1,000	
Labor: Specific role	\$0	
Labor: General	\$500	Discretionary
Overhead: Insurance	\$500	Increase in liability
Overhead: Rent	\$0	
Projected Increase or Decrease Net Profits	\$10,300	

It's possible your venture will decrease expenses of the core operation.

# OPPORTUNITY VS DEBT

<b>New Debt</b>		
Loan Amount		\$10,000
Annual Rate		5.8%
# of Monthly Payments		48
Monthly Payment		\$234
Annual Payment	Annual payment w/ Interest	\$2,807
Total Payments on Loan Projected		\$11,229
Projected Interest Paid over Loan Period		\$1,229
Projected Net Operating Cash		\$26,469
Change from Budgeted Net Operating Cash		\$7,493
Profit Margin as % of New Opportunity Revenue		29%

Enter the 'terms' of your potential debt to assess ROI in year #1.

Annual payment w/ Interest

What is this telling us?!

# OPPORTUNITY VS DEBT

## **This first scenario looks good! How do we know?**

- Revenue is \$26k with a Net after expenses (and expense reduction) of \$10.3k
- Annual cost of the loan is less than \$3k
- Leaves us with and added \$7.5k in the first year
- That 29% Profit Margin is the % of revenue retained after expenses AND debt service for that opportunity.
- Retaining almost 1/3 of your sales in a new venture, AFTER debt payment, is a darn good opportunity.

# OPPORTUNITY VS DEBT

Budgeted Annual Income	\$150,000	Pulled from annual budget
Budgeted COGS	\$65,000	Pulled from annual budget
Budgeted Expenses	\$57,000	Pulled from annual budget
Budgeted Net Profits	\$28,000	
Current debt payments, annual, principal only	\$9,024	Pulled from debt schedule
Budgeted Net Operating Cash	\$18,976	
<b>Opportunity:</b> Equipment purchase for school sales		
Projected Increase in Income	\$15,000	\$500/week in sales, 30 weeks/year
Projected Increase or Decrease in COGS		
Seeds, fertilizer, supplies	\$2,700	about \$90 per order
Packaging	\$1,200	\$40/order
Direct Labor	\$5,400	8-10 hours per week at \$15/hr
Projected Increase or Decrease in Expenses		
Operations: Logistics	\$675	\$20-25 / week in fuel
Operations: Repair & Maintenance	-\$3,000	Less maintenance cost on ...
Operations: Utilities	\$0	
G&A: Marketing	\$0	
G&A: Office related	\$500	Paperwork
G&A: permits / lic / cert	\$1,000	Some certification cost
Labor: Specific role	\$0	
Labor: General	\$500	
Overhead: Insurance	\$500	
Overhead: Rent	\$0	
Projected Increase or Decrease Net Profits	\$5,525	

Lower sales in this 2nd scenario

This opp nets at about half of the 1st scenario



# OPPORTUNITY VS DEBT

Loan Amount	\$20,000
Annual Rate	5.8%
# of Monthly Payments	48
Monthly Payment	\$468
Annual Payment	\$5,614
Total Payments on Loan Projected	\$22,458
Projected Interest Paid over Loan Period	\$2,458
Projected Net Operating Cash	\$18,887
Change from Budgeted Net Operating Cash	-\$89
Profit Margin as % of New Opportunity Revenue	-1%

This doesn't look great.  
What should we be asking ourselves?

# OPPORTUNITY VS DEBT

## The second scenario looks crumbly. What now?

- Shouldn't we ask what years 2 and 3 might look like?
- Maybe the year 2 plan is to ramp up to \$30k of revenue.
- Are we willing to break even in year 1 because future years will be more profitable?
- If we are willing to accept a small loss year 1, will our profit from the core operation support that cash need?
- Always challenge your assumptions and revise the draft!



# OPPORTUNITY VS DEBT

## Critical Point for Trainers

- This model is meant to be a quick and palatable way to do a first-stage assessment of an opportunity.
- The purpose of the tool is to help a farmer understand if they should explore an opportunity further, or scrap it.
- Biggest opportunities for learning:
  - Perfect is the enemy of progress. Keep the car moving.
  - Even a small bit of financial analysis is better than gut alone.
  - Great chance to learn how to amortize in a spreadsheet!

# AMORTIZATION

Inputs are: loan amount and terms (years and interest rate)

		<b>Mortgage</b>					
	Original Loan	\$1,500,000					
	Months	360	30 years				
	Interest Rate	2.75%					
	Monthly Payment	\$6,123.62					
Month	Beg Bal	Int	Principal	Ending Bal		Total Interest	Total Principal
1	\$1,500,000.00	\$3,437.50	\$2,686.12	\$1,497,313.88			
2	\$1,497,313.88	\$3,431.34	\$2,692.27	\$1,494,621.61			
3	\$1,494,621.61	\$3,425.17	\$2,698.44	\$1,491,923.17			
4	\$1,491,923.17	\$3,418.99	\$2,704.63	\$1,489,218.54			
5	\$1,489,218.54	\$3,412.79	\$2,710.83	\$1,486,507.71			
6	\$1,486,507.71	\$3,406.58	\$2,717.04	\$1,483,790.68			
7	\$1,483,790.68	\$3,400.35	\$2,723.26	\$1,481,067.41			
8	\$1,481,067.41	\$3,394.11	\$2,729.50	\$1,478,337.91			
9	\$1,478,337.91	\$3,387.86	\$2,735.76	\$1,475,602.15			
10	\$1,475,602.15	\$3,381.59	\$2,742.03	\$1,472,860.12			
11	\$1,472,860.12	\$3,375.30	\$2,748.31	\$1,470,111.80			
12	\$1,470,111.80	\$3,369.01	\$2,754.61	\$1,467,357.19	End Year 1	\$40,840.61	\$32,642.81
13	\$1,467,357.19	\$3,362.69	\$2,760.92	\$1,464,596.27			
14	\$1,464,596.27	\$3,356.37	\$2,767.25	\$1,461,829.02			
15	\$1,461,829.02	\$3,350.02	\$2,773.59	\$1,459,055.42			
16	\$1,459,055.42	\$3,343.67	\$2,779.95	\$1,456,275.48			
17	\$1,456,275.48	\$3,337.30	\$2,786.32	\$1,453,489.16			
18	\$1,453,489.16	\$3,330.91	\$2,792.71	\$1,450,696.45			
19	\$1,450,696.45	\$3,324.51	\$2,799.11	\$1,447,897.35			
20	\$1,447,897.35	\$3,318.10	\$2,805.52	\$1,445,091.83			
21	\$1,445,091.83	\$3,311.67	\$2,811.95	\$1,442,279.88			
22	\$1,442,279.88	\$3,305.22	\$2,818.39	\$1,439,461.48			
23	\$1,439,461.48	\$3,298.77	\$2,824.85	\$1,436,636.63			
24	\$1,436,636.63	\$3,292.29	\$2,831.33	\$1,433,805.31	End Year 2	\$39,931.53	\$33,551.89

Practice creating your own using this template



# HOMework

## Complete an Opp vs Debt Assessment

- Assume a baseline budget that is reasonable/profitable/matches your scale
- Plug and play with the Opp vs Debt model for year #1 ROI
- Amortize two scenarios for the debt and note your year #2 discoveries



• **THANK YOU** •

**QUESTIONS?**

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