



# **Business Planning using Cash Flow Analysis**

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# Looking to the Future

- What are your skills?
- What is your tolerance for risk?
- What is your capacity to deal with ambiguity?
- What is your capacity to lead others?
- What is your capacity for self-discipline?



**What is your capacity to gather information?**

# define success

**acres**

**tractors**

**cows**

**gross sales**

**yield/acre**

**net profit**

# **define success**

**enough net profit to meet your goals  
for your family and your business**

# know your business

- **Plan to succeed, plan to be happy**
- **Tell your story in a business plan**
- **A budget is a plan in numbers**
- **Plan for contingencies**

# manage your business

**Three basic business skills:**

- 1. Financial**
- 2. Production**
- 3. Marketing**

***If you are lucky you have two of these skills.  
Partner with or hire the skill you don't have.***



# Plan to Succeed

The One Page Business Plan



FARM CREDIT

**Mission:** The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

## Objectives:

Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

**Objective 1:**

**Objective 2:**

**Objective 3:**

**Objective 4:**

**SMART Goals:** Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

**SMART Goal a):**

**SMART Goal a):**

**SMART Goal a):**

**SMART Goal a):**

**Action Plan:**

i.

**Action Plan:**

i.

**Action Plan:**

i.  
ii.  
iii.

**Action Plan:**

i.  
ii.

**SMART Goal b):**

**SMART Goal b):**

**SMART Goal b):**

**SMART Goal b):**

**Action Plan:**

i.  
ii.  
iii.

**Action Plan:**

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**Action Plans:** Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.

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Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

Objective 1:

**PEOPLE**

Objective 2:

**FINANCIAL**

Objective 3:

**PRODUCTION**

Objective 4:

**MARKETING**

**SMART Goals:** Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

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**Action Plans:** Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.

# Plan to Succeed

The One Page Business Plan



FARM CREDIT

**Mission:** The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

**The mission of Brice's Pastured Pork is to grow good pork, make good money and be good people.**

## Objectives:

Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

### Objective 1:

Achieve an appropriate balance of work and home life

### Objective 2:

Make enough money to pay myself, the bank and reinvest in the farm

### Objective 3:

Increase efficiency

### Objective 4:

Increase communication with retail customers

**SMART Goals:** Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

### SMART Goal a):

Take Sundays off

#### Action Plan:

- i. Train Charlie for Sunday tasks, give him #'s to call
- ii. Measure his performance

### SMART Goal b):

#### Action Plan:

- i.
- ii.
- iii.

### SMART Goal a):

Make a net profit (including draw) of \$30,000 this operating cycle

#### Action Plan:

- i. Compare cash flow budget to P&L and bank accounts monthly, adjust as needed

### SMART Goal b):

#### Action Plan:

- i.
- ii.
- iii.

### SMART Goal a):

Increase average weight gain per animal per month

#### Action Plan:

- i. Measure pounds gained per month

### SMART Goal b):

Test soil in pastures to find out nutrient and lime needs

#### Action Plan:

- i. Rotate pastures to assure best use of feed and avoid nutrient runoff/waste

### SMART Goal a):

Start and maintain a blog to show customers progress on farm

#### Action Plan:

- i. Research platforms
- ii. Block off 1 hour each week to write post/ edit pics

### SMART Goal b):

Invite customers to participate in barbeque contest, %of proceeds to be donated to local 4-H sale

#### Action Plan:

- i. Pick date and venue
- ii. Send out e-mail blast with invitation to 4-H sale day

**Action Plan:** Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.







## Develop a budget to ensure you are valued.



- 1) Use last year's records as a starting point for your five-line income statement. If you're starting a new operation, plenty of information is available!  
For example:

- <http://agalternatives.aers.psu.edu/>
- <http://cdp.wisc.edu/Budgets,%20Spead%20&%20Programs.htm>
- <http://www.ces.uga.edu/Agriculture/agecon/printedbudgets.htm>

Make sure you take regional cost differences into account (land rent is a good example of this.)

- 2) Calculate your five-line income statement.

COGS = any expense that helps produce one more unit of output.

Production labor and associated payroll expenses, including workman's compensation, unemployment taxes, FICA, Medicare, health insurance  
Crop or livestock inputs – seed, fertilizer, soils, chemicals, feed

Overhead = any expense that you incur no matter how much production you actually have.

The main ones are the "**DIRTY**" Five:

Depreciation, Interest, Repairs, Taxes, Insurance

Don't forget to include Managers' and Bookkeepers' wages/salaries, marketing, and utilities.

- 3) Calculate the percent of sales for each line.  
(Divide the dollars for each line by the total sales.)

Historical	Dollars	% of Sales
Sales:	\$	100%
- Cost of Goods Sold:	\$	%
= Gross Margin:	\$	%
- Overhead	\$	%
= Profit (Net Income)	\$	%

- 4) Create your budget—from the bottom up. Start with your desired draw (the amount you and your family need to take from the operation to live on, plus income taxes). Add the principal portion of any loan payments you need to make in 2011 to get the total profit needed from the operation.

- 5) Add your overhead expenses to the required profit to figure the gross margin the operation will need to yield. Your overhead expenses shouldn't change much from the previous year, unless you've undergone a significant expansion or other major change.

- 6) Determine the breakeven sales needed in your operation to support the overhead obligations and profit required. Do this by dividing the gross margin (E) by the gross margin as a percent of sales (taken from your records, calculated in step 3).

- 7) Step back and see if this budget makes sense. Is this sales volume reasonable for this year, especially if it's your first year in business? Is it possible for the acreage you raise and the market prices of your products? If it is, great! Develop a marketing plan (action plan) to achieve that level of sales. If not, that's okay. Rework until you have a plan that is sound. If this is a building year, how will you achieve your goal (and finance the operation in the meantime)? Address these questions early in the year to ensure you have a complete plan.

BUDGET		
Owner Draw Desired (include income taxes):	\$	(A)
Bank principal payments required:	\$	(B)
TOTAL PROFIT REQUIRED: (A+B)	\$	(C)
Overhead expenses	\$	(D)
GROSS MARGIN REQUIRED: (C+D)	\$	(E)
Divide by Gross Margin percentage	\$	(F)
SALES VOLUME REQUIRED: \$ (E/[F as % of sales—from historical])		(G)

more instructions at [www.foodshedguide.org](http://www.foodshedguide.org)

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- 3) Calculate the percent of sales for each line.  
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Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$113,400	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$87,585	77%
= Gross Margin:	\$25,815	23%
- Overhead <i>(fixed costs)</i>	\$15,034	13%
= Profit (Net Margin)	\$10,780	10%

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BUDGET	
Owner Draw Desired (include income taxes):	\$30,000 (A)
Bank principal payments required:	\$20,000 (B)
TOTAL PROFIT REQUIRED: (A+B)	\$50,000 (C)
Overhead expenses	\$15,000 (D)
GROSS MARGIN REQUIRED: (C+D)	\$65,000 (E)
Divide by Gross Margin percentage	1—.77=.23 (23%) (F)
SALES VOLUME REQUIRED: (E/F as % of sales—from historical)]	\$282,608 (G)

# Showing Annual Business Results

## *The 5-Line Income Statement*

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$113,400	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$87,585	77%
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# Showing Annual Business Results

This 5-Line  
Income Statement



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Becomes the basis  
of this Cash Flow  
Analysis  
Spreadsheet



		As % Total Sales
GROSS SALES PER 40 HEAD of SOWS:	\$ 113,400.00	100%
	<u>Annual</u>	
	\$ -	
TOTAL VARIABLE COSTS <i>also called Cost of Goods Sold or COGS</i>	\$ 87,585.00	77%
GROSS MARGIN (Total Sales-Variable Costs=Gross Margin)	\$25,815	23%
TOTAL FIXED COSTS <i>or Overhead:</i>	\$ 15,034.32	13%
NET MARGIN (Sales-Variable Costs-Fixed Costs=Net Return) <i>or net profit</i>	\$10,780.68	10%



## *The Concept of Cash Flow Budgeting*

JANUARY	FEBRUARY	MARCH
TOTAL INCOME (TI)	TOTAL INCOME (TI)	TOTAL INCOME (TI)
VARIABLE COSTS (VC)	VARIABLE COSTS (VC)	VARIABLE COSTS (VC)
GROSS MARGIN (TI-VC)	GROSS MARGIN (TI-VC)	GROSS MARGIN (TI-VC)
FIXED COSTS (FC)	FIXED COSTS (FC)	FIXED COSTS (FC)
NET MARGIN (TI-VC-FC)	NET MARGIN (TI-VC-FC)	NET MARGIN (TI-VC-FC)
BEGINNING CASH	BEGINNING CASH	BEGINNING CASH
MONTHLY CASH FLOW	MONTHLY CASH FLOW	MONTHLY CASH FLOW
ENDING CASH	ENDING CASH	ENDING CASH

The diagram illustrates the concept of cash flow budgeting by showing how the ending cash of one month becomes the beginning cash of the next month. Red arrows indicate the flow of cash from the 'ENDING CASH' row of January to the 'BEGINNING CASH' row of February, and from the 'ENDING CASH' row of February to the 'BEGINNING CASH' row of March.





# Pastured Pork Cash Flow Analysis

## *Summary of Annual Results from Spreadsheet (the 5-Line Income Statement)*

		As % Total Sales
GROSS SALES PER 40 HEAD of SOWS:	\$ 113,400.00	100%
	<u>Annual</u>	
	\$ -	
TOTAL VARIABLE COSTS <i>also called Cost of Goods Sold or COGS</i>	\$ 87,585.00	77%
GROSS MARGIN (Total Sales-Variable Costs=Gross Margin)	\$25,815	23%
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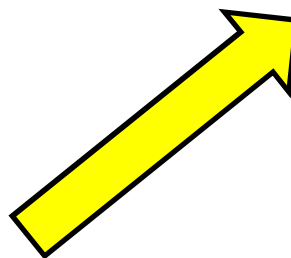
# Pastured Pork Cash Flow Analysis

## *Monthly Results Spreadsheet*

														As % Total Sales
GROSS SALES PER 40 HEAD of SOWS:	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 113,400.00	100%
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual	
A. TOTAL VARIABLE COSTS: <small>also</small>	\$ 7,227.95	\$ 6,877.95	\$ 7,727.95	\$ 6,727.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 7,877.95	\$ 7,727.95	\$ 87,545.40	77%
GROSS MARGIN (Total Sales-Variable Costs=Gross Margin) <small>This is based on results from previous year of operation, or it is estimated from a benchmark</small>														23%
B. TOTAL FIXED COSTS or Overhead:	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 13,240.20	13%
NET MARGIN (Sales-Variable Costs-Fixed Costs=Net Return) <small>Also called net profit or net income in dollars, or net profit margin when described as a percentage</small>													\$10,790.25	10%
E. MONTHLY CASH FLOW (D-C)	\$ 1,118.70	\$ 1,468.70	\$ 618.70	\$ 1,618.70	\$ 1,468.70	\$ 1,618.70	\$ 1,489.70	\$ 1,468.70	\$ 1,618.70	\$ 1,489.70	\$ 468.70	\$ 1,568.70	\$ 15,824.40	
G. Beginning Cash (Checking Account)	\$25,000.00	\$26,118.70	\$27,587.40	\$28,206.10	\$29,674.80	\$31,293.50	\$32,912.20	\$34,405.90	\$35,874.60	\$37,493.30	\$38,967.00	\$39,455.70		
H. Ending Cash (Checking Account)	\$26,118.70	\$27,587.40	\$28,206.10	\$29,674.80	\$31,293.50	\$32,912.20	\$34,405.90	\$35,874.60	\$37,493.30	\$38,967.00	\$39,455.70	\$40,824.40		

Brice's Pastured Pork 40 sows

Cash flows are  
highlighted in  
yellow





# Pastured Pork Monthly Cash Flow Analysis

														As % Total Sales 100%
<b>GROSS RETURNS PER 40 HEAD of SOWS:</b>	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 113,400.00	
Head Sold	50	50	50	50	50	50	50	50	50	50	50	50	600	
Price Per CWT	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	
Price Per Head (280 lb @ 75% yield)	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	
<b>VARIABLE COSTS PER 40 SOWS:</b>														
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual	
Replacement Breeding Stock Purchased							\$1,375.00			\$1,375.00			\$ 2,750.00	
Semen Cost		\$150.00			\$150.00			\$150.00			\$150.00		\$ 600.00	
Pasture Rent	\$300.00												\$ 300.00	
Feed Cost (total ration)	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$ 65,973.72	
Bedding Cost	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$ 6,169.80	
Farrowing Hut Repair												\$1,000.00	\$ 1,000.00	
Hired Labor	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$ 2,400.00	
Veterinary & Supplies	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$ 960.00	
Utilities, Fuel, Oil	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$ 2,400.00	
Manure Hauling			\$1,000.00								\$1,000.00		\$ 2,000.00	
Pork Checkoff	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$ 1,182.60	
Death Loss	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$ 1,649.28	
													\$ -	
													\$ -	
<b>A. TOTAL VARIABLE COSTS</b>	also \$ 7,227.95	\$ 6,877.95	\$ 7,727.95	\$ 6,727.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 7,877.95	\$ 7,727.95	\$ 87,585.40	77%
<b>GROSS MARGIN (Total Sales-Variable Costs=Gross Margin)</b>	This is based on results from previous year of operation, or it is estimated from a benchmark													23%
<b>FIXED COSTS PER 40 SOWS:</b>														
Skid Loader Lease	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 2,544.12	
Hoop Building Lease	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 4,240.20	
Breeding Stock Lease	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 8,250.00	
													\$ -	
<b>B. TOTAL FIXED COSTS or Overhead:</b>	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 353.35	\$ 15,034.32	13%
<b>NET MARGIN (Sales-Variable Costs-Fixed Costs=Net Return)</b>	Also called net profit or net income in dollars, or net profit margin when described as a percentage													10%
													\$10,780.28	
<b>C. TOTAL COSTS PER 40 HEAD OF SOWS: (A+B)</b>	\$ 8,331.30	\$ 7,981.30	\$ 8,831.30	\$ 7,831.30	\$ 7,981.30	\$ 7,831.30	\$ 9,206.30	\$ 7,981.30	\$ 7,831.30	\$ 9,206.30	\$ 8,981.30	\$ 8,081.30	\$ 100,075.60	
<b>GROSS RETURNS PER 40 HEAD OF SOWS:</b>	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	
Fat Hog Sales	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00		
Cull Sow Sales							\$ 1,250.00			\$ 1,250.00				
<b>D. GROSS RETURNS (Sales):</b>	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 10,700.00	\$ 9,450.00	\$ 9,450.00	\$ 10,700.00	\$ 9,450.00	\$ 9,450.00	\$ 113,900.00	
<b>E. MONTHLY CASH FLOW (D-C)</b>	\$ 1,118.70	\$ 1,468.70	\$ 618.70	\$ 1,618.70	\$ 1,468.70	\$ 1,618.70	\$ 1,493.70	\$ 1,468.70	\$ 1,618.70	\$ 1,493.70	\$ 468.70	\$ 1,368.70	\$ 15,824.40	
<b>G. Beginning Cash (Checking Account)</b>	\$25,000.00	\$26,118.70	\$27,587.40	\$28,206.10	\$29,824.80	\$31,293.50	\$32,912.20	\$34,405.90	\$35,874.60	\$37,493.30	\$38,987.00	\$39,455.70		
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Brice's Pastured Pork 40 sows

# how quickly can you make money?

- **Goal of producing cash in 6 months**
- **Budget to accomplish goal**
- **Pay your bills**
- **Family living expenses**

# plan your business

- **Record keeping is required for taxes**
- **Ultimate goal is to manage from records**
- **Need up-to-date and accurate records**
- **Create budget with expectations and measurable results**

# starting in the beef business

**Like any small business:**

**income**

**expenses**

**cash flow**



# things to do before starting

- **Save money**
- **Protect credit rating**
- **Gain experience**
- **Network**
- **Plan**

The background of the image is a blurred photograph of a lush green field. A narrow, dark path or stream winds through the center of the field, leading from the foreground towards the background. The grass is tall and dense, and the overall scene is out of focus, creating a sense of depth and movement.

**[www.annualcreditreport.com](http://www.annualcreditreport.com)**



# Grass Fed Beef

## 5-Line Income Statement

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$367,200	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$312,600	85%
= Gross Margin:	\$54,600	15%
- Overhead <i>(fixed costs)</i>	\$7,800	2%
= Profit (Net Margin)	\$46,800	13%





## ***Direct-to-Retail Vegetables 5-Line Income Statement***

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$134,400	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$80,096	60%
= Gross Margin:	\$54,304	40%
- Overhead <i>(fixed costs)</i>	\$10,472	8%
= Profit (Net Margin)	\$43,832	33%