

# Department of Agricultural and Resource Economics

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## BUSINESS PLANNING FOR AGRICULTURAL OPERATIONS: FINANCIAL PLAN



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For many operations, the financial plan is the most important part of the business plan. The financial plan is the fourth and final section of the business plan, following the marketing plan. This component provides the opportunity to evaluate and communicate the current financial resources of the operation and ability to withstand volatility in the marketplace. A financial plan will also include any funding request and sources sought to obtain such funds. Along with the other publications in this series, this guide can assist agricultural producers in developing a comprehensive business plan.

### Financial Position

The financial position refers to the current financial strength of the operation at a point in time. A balance sheet is often used to communicate the assets, liabilities and owner's equity of the operation in this section, documenting the business's net worth. Using the balance sheet, financial ratios can evaluate the ability of the operation to meet short- and long-term obligations and the capacity to withstand risks. For an existing operation, how has the net worth changed over the last three to five years? For a new operation, the financial position should describe the ability of the owner to make new investments and meet

financial obligations. See Additional Resources for more information about developing financial statements.

### Historical Performance

This section describes key trends and indications of how the operation has performed over the last 3 to 5 years. Measures of production and financial performance that paint a picture of how the operation has grown or changed over time are provided here. Include production levels, such as yield, quantity produced or services provided. Describe the profitability of the operation by including or summarizing the income (profit and loss) statement. This information is often included on a Schedule F tax return. Explain any positive or negative changes in production or financial performance and adjustments that will be implemented to remain profitable.

### Financial Projections

The financial projections may be the most important part of a business plan, providing an explanation of where the business will be in the next 3 to 5 years. Before starting or expanding a business, consider how investments will impact profitability and long-term sustainability of the operation.

Will the operation be financially feasible? A projected cash flow statement is often used to communicate the feasibility of an operation to others. Detail how projected income will exceed expenses of potential investments, including how production and marketing scenarios will impact profitability. Describe how the operation will withstand volatility in the marketplace or declines in production capacity. Financial projections can be used to answer these questions and are an important risk management tool to analyze the operation.

### Capital Request

A business plan is often developed to provide both the operator and potential investors with a detailed description of the current operation and plans for the future. If the business plan will be used to obtain funding, describe how much funding is needed, how the funds requested would be used, and a timeline of implementation. Outline the sources of financing requested and the amount of funding requested from each source. Financing sources often include owner's equity or personal investment, private lending, and grant funding programs. A list of common grant funding opportunities for agricultural producers can be found on the Center for Profitable Agriculture website.

### Conclusion

A financial plan includes information regarding the current financial state of the operation and any capital requests to meet future goals. With a clear understanding of the current financial state of the operation and projections of how investments would impact profitability, producers can make informed decisions regarding the future. The final step in developing a business plan is writing the executive summary, which includes a brief synopsis of the entire business plan, including the business description, marketing plan and financial plan. All components of a business plan should be updated as goals and circumstances change.

*A worksheet is provided to assist in the business planning process.*

### Additional Resources

**UT Center of Farm Management**

**UT Center for Profitable Agriculture**

An Introduction to Basic Farm Financial Statements: Balance Sheet

An Introduction to Basic Farm Financial Statements: Income Statement



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