

UNDERSTANDING YOUR ACCOUNTS AND BUSINESS PLANNING - SAMPLE

Farmer Workshop *Sample*

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ANDERSONS
THE ANDERSONS CENTRE

WORKSHOP AGENDA ~ 1

1. Introductory Quiz

2. Why is this topic important?

- what do you want to get out of this course?

3. How do you know how you are doing?

- bank account, tax accounts, management accounts, balance sheet
- key terminology
- non-cash costs – depreciation, family labour, land costs

4. Review of accounts

- basic ratios and analysis

5. Going deeper

- Cost of Production (CoP) analysis and benchmarking
- Key Performance Indicators (KPI)

6. Return on Capital

WORKSHOP AGENDA ~ 2

- 1. Business planning – why bother?**
- 2. Goal setting – longer-term plans**
 - where do you want to be in 10-years time?
 - time management and work:life balance
- 3. Achieving you goals – one year at a time**
 - budgeting ahead
 - sensitivity analysis
 - using the budget- monitoring, adapting
- 4. Future actions**
 - what am I going to start doing?
 - what assistance might I need

BEEF SECTOR QUIZ

THIS COURSE

IMPROVING RETURNS

Welcome to this training program which aims to help you improve your understanding of accounts and business planning.

Throughout this course we will be looking at the tools used in accountancy, what they mean, and how to use them to drive your business.

It does not matter if you or someone else physically does the accounts in your business, but it is vital that you understand them and know what they are telling you

But more important is using that information to plan ahead.

IMPROVING RETURNS

- **Around 70% of the difference in financial returns between farms is down to the quality of management**
- **High-performing businesses share the following features;**
 - use of management accounting, including budgeting and benchmarking
 - an open attitude to gaining and sharing information
 - a willingness to improve skills – both of managers and staff
 - greater use of information technology
 - risk management techniques such as forward contracts
 - greater attention to detail – *the best farms do a lot of things a little bit better rather than a few things massively better than the norm*

WHAT IS THE VALUE OF YOUR LABOUR?

	Manual tasks <i>(stock-keeping, tractor driving etc.)</i>	Operating management <i>(feeding and fertility planning, etc.)</i>	Strategic management <i>(long term planning, business management)</i>
Value of 1 hour work	£10	£50	£500

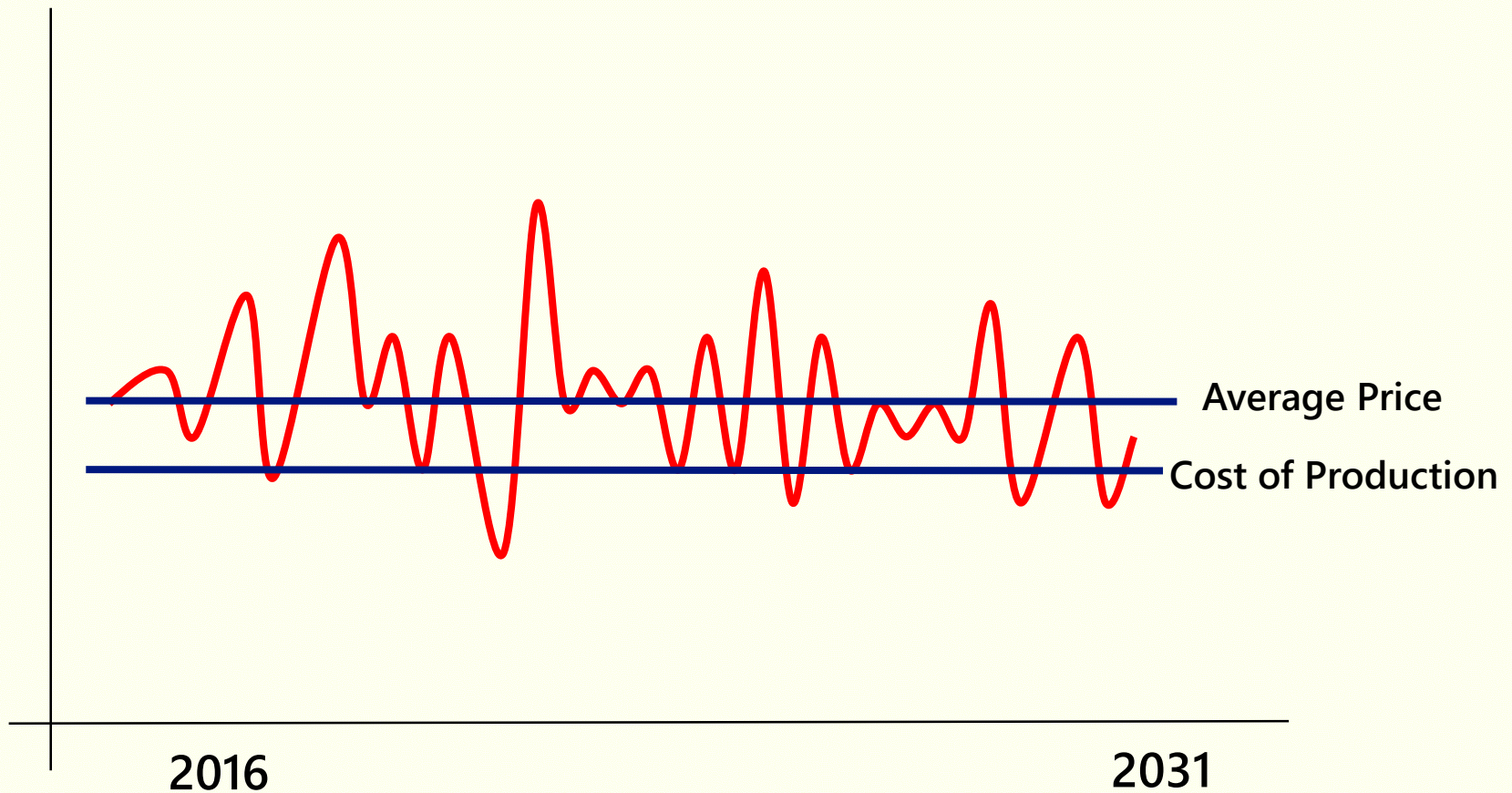
Key message: Time spent on management provides higher return.



ANDERSONS

THE NEXT 15 YEARS

Beef Price versus Cost of Production



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ACTIVITY: WHAT DO I
WANT TO ACHIEVE?

YOUR AIMS FOR THE COURSE

Take 5 minutes to write down why you are here and what you want to take away from these sessions

1. Personal

Improve my knowledge and skills

2. Business

Feel more in control of the farm

3. Financial

Make more profit



HOW AM I DOING?

HOW DO YOU MANAGE?

- **Look at bank balance;**
 - is cash situation better / worse than last month
 - have things improved / worsened since this time last year?
 - am I running out of cash?
- **Tax accounts**
 - better or worse than last year?
 - better than 5-year average?
- **Management accounts**
 - information you can use in your business

FINANCIAL & MANAGEMENT ACCOUNTS

Financial Accounts

- External (tax)
- Historic
- Legal requirement (set format)
 - capital allowances on machinery for tax
- Whole business
- Purely financial

Management Accounts

- Internal (management)
- Current / future
- By choice (what works and is relevant)
 - machinery depreciation to show actual cost
- More detail – by enterprise
- Physical (yields) and £s

Financial accounts are only of limited help in knowing what is going on in a business

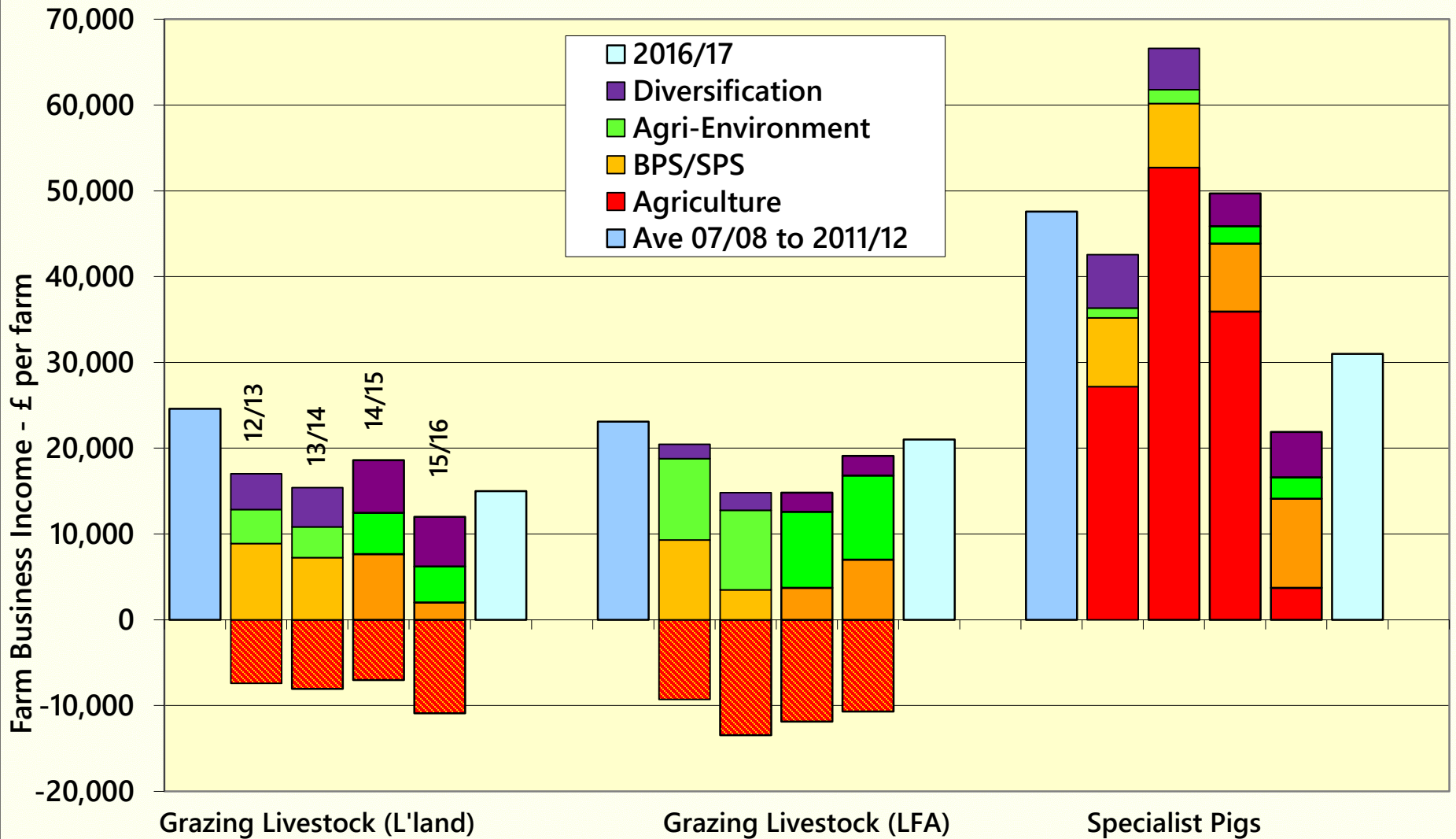
KEY TERMS - PROFIT

- What is it?
- How do we calculate it?

Note: this slide is content demonstration only. Actual P & L session would encompass multiple slides and take one or two hours to cover.

LIVESTOCK PROFITS

Farm Business Income, England – 2007/08 to 2016/17



CASH AND CASHFLOW

- How does it differ from profit?
- How can I be profitable, but run out of cash?

Content demonstration only

CAPITAL AND THE BALANCE SHEET

- Difference between capital and trading expenses
- Valuations, debtors and creditors
- What does the balance sheet show me?

Content demonstration only

NON-CASH COSTS

Why they are important

1. Depreciation
2. Unpaid (family) labour
3. Land costs (imputed rent)

BRINGING IT TOGETHER

- **Source and disposal of funds (or source and application of funds)**
 - where has money come from and where has it gone?
 - linking P & L and Balance Sheet

Content demonstration only

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ACTIVITY: BUILDING A P & L



REVIEWING ACCOUNTS

PROPORTIONAL ANALYSIS

<i>£m</i>	2012	%	Target %	<i>Years?</i>
Total Output	25,598*	100	100	
Direct Costs	9,031	35	30-35	
Labour	2,373	9	12-15	
Power & Mach	4,582	18	15-17	
Overheads & Admin	1,785	7	3-4	
Property	2,376	9	3-4	
Rent & Interest	748	3	12-15	
TIFF (Profit)	4,702	18	15-19	

* Includes £1,012 of non-farming income

Adjustments: TIFF labour does not include proprietors' manual labour; (up to £4,300m?)
Full rental charge might be £3,000m. Would be offsetting reduction in interest (mortgage costs) and property (landlords repairs).

KEY RATIOS

- **Net Worth:** Total Assets – Total Liabilities
- **Business Equity:** $\text{Net Worth} \div \text{Total Assets} \times 100$
- **Gearing:** $\text{Medium and Long Term Liabilities} \div \text{Net Worth} \times 100$
- **Current Ratio:** Current Assets : Current Liabilities
- **Why are these important?**

Content demonstration only:
actual session includes worked
example and more detail on
each ratio.

ACTIVITY: RATIOS

EXERCISE

- Use the following data to complete the balance sheet on the next page and
- Then work out the Net Worth, Equity, Gearing Ratio of this business.
- What does this tell you about the business
 - 300 acre farm valued at £8,000 per acre
 - Farm house and bungalow valued at £500,000
 - Plant and machinery at £150,000
 - 200 suckler cows at £1,500
 - 50 Heifers at average of £1,000
 - 3 Bulls at £2,500

EXERCISE – CONT.

- Machinery: Tractor Loader, 2nd Tractor, Fertiliser Spinner, Mower, Bedding Machine, plus miscellaneous (roller, trailers etc.) at £60,000
- BPS entitlements valued @ £200/Ha
- 2,000 tonnes of silage @ £25/tonne
- 10 tonnes of cow cake @ £190/tonne
- cheque due from auction mart @ £5,000
- 1 month of creditors @ £10,000
- Current Account: £32,000
- Bank Loan: £125,000
- HP: £26,000



COST OF PRODUCTION

COST OF PRODUCTION

- **For beef expressed as**
 - per head *or*
 - pence per Kg of meat
- **Compare to likely market prices**
- **3 or 5 year averages for long-term sustainability**
- **Benchmark against others to highlight areas for improvement**
- **Not always easy to produce**
 - problem in apportioning costs
 - how to treat non-cash costs
 - must be prepared on a consistent basis to be meaningful

PROFITABILITY RANGE

Profit per Head

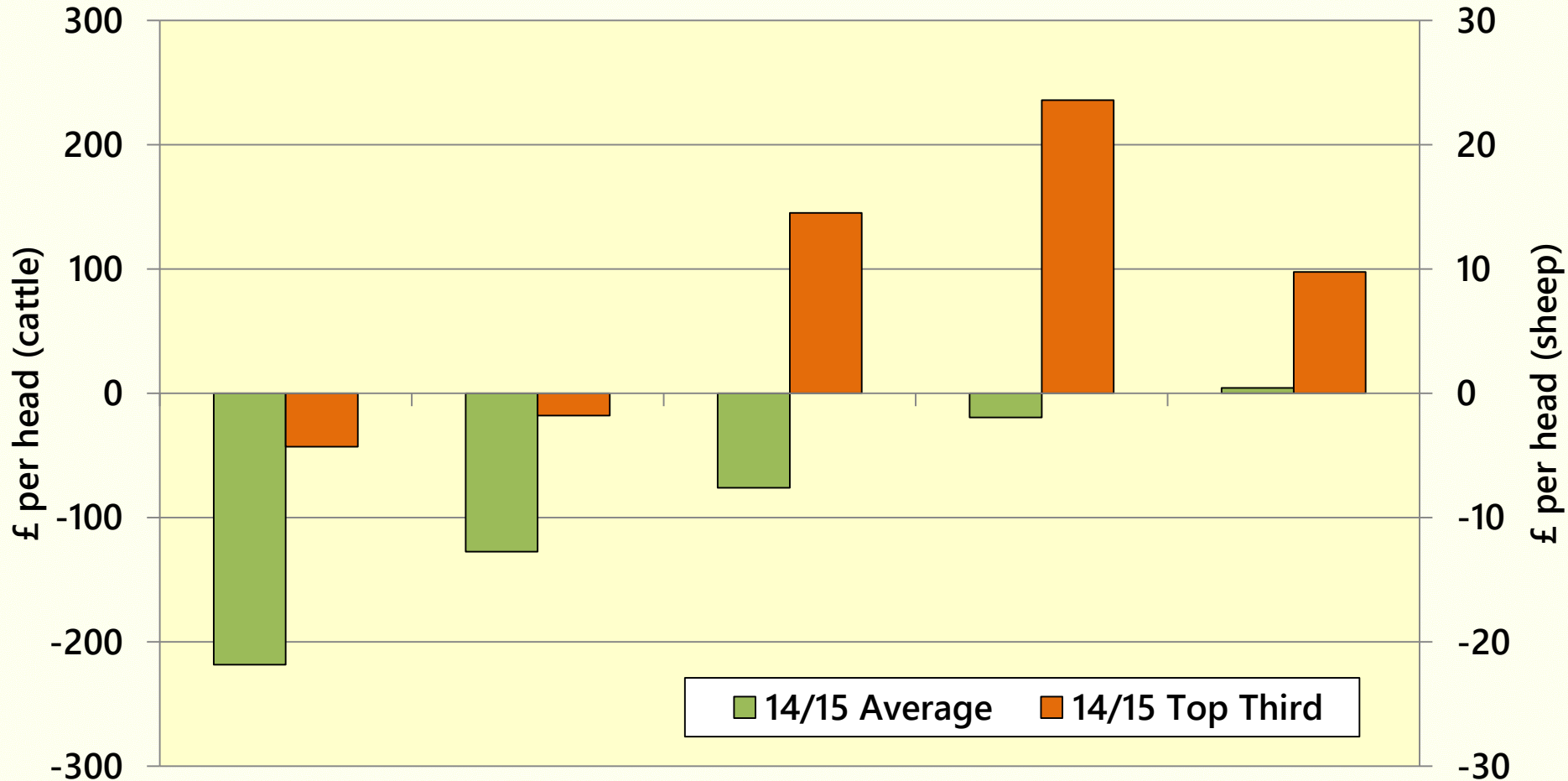
Lowland
Sucklers

Store Rearers

Lowland Flocks

Upland Flocks

Store Lamb
Finishing



14/15 Average

14/15 Top Third

BENCHMARKING

“Looking Backwards to Move Forwards”

- Benchmarking is a starting point, a health check
- Identifies strengths and weaknesses
- Evidence for an Action Plan
- Annual review
- Accountability of external advice

KEY COSTS

Four costs explain **70%** of variation between top and bottom producers:

- **Feed cost**
 - especially % of feed from forage
- **Labour cost**
- **Power and machinery cost**
- **Depreciation**

KEY PERFORMANCE INDICATORS: BEEF

	Group Ave	Target	Your Figs.
• Calving %	92%	92%	?
• Culling % and mortality	15%	15%	?
• Stocking rate – LU/Ha	1.6	1.6	?
• Fertiliser use – kg/Ha	26	26	?
• Feed use – kg/Hd	400	400	?
• Days to slaughter	?	?	?
• Daily liveweight gain - g	?	?	?
• Carcass classification	R4L	R4L	?

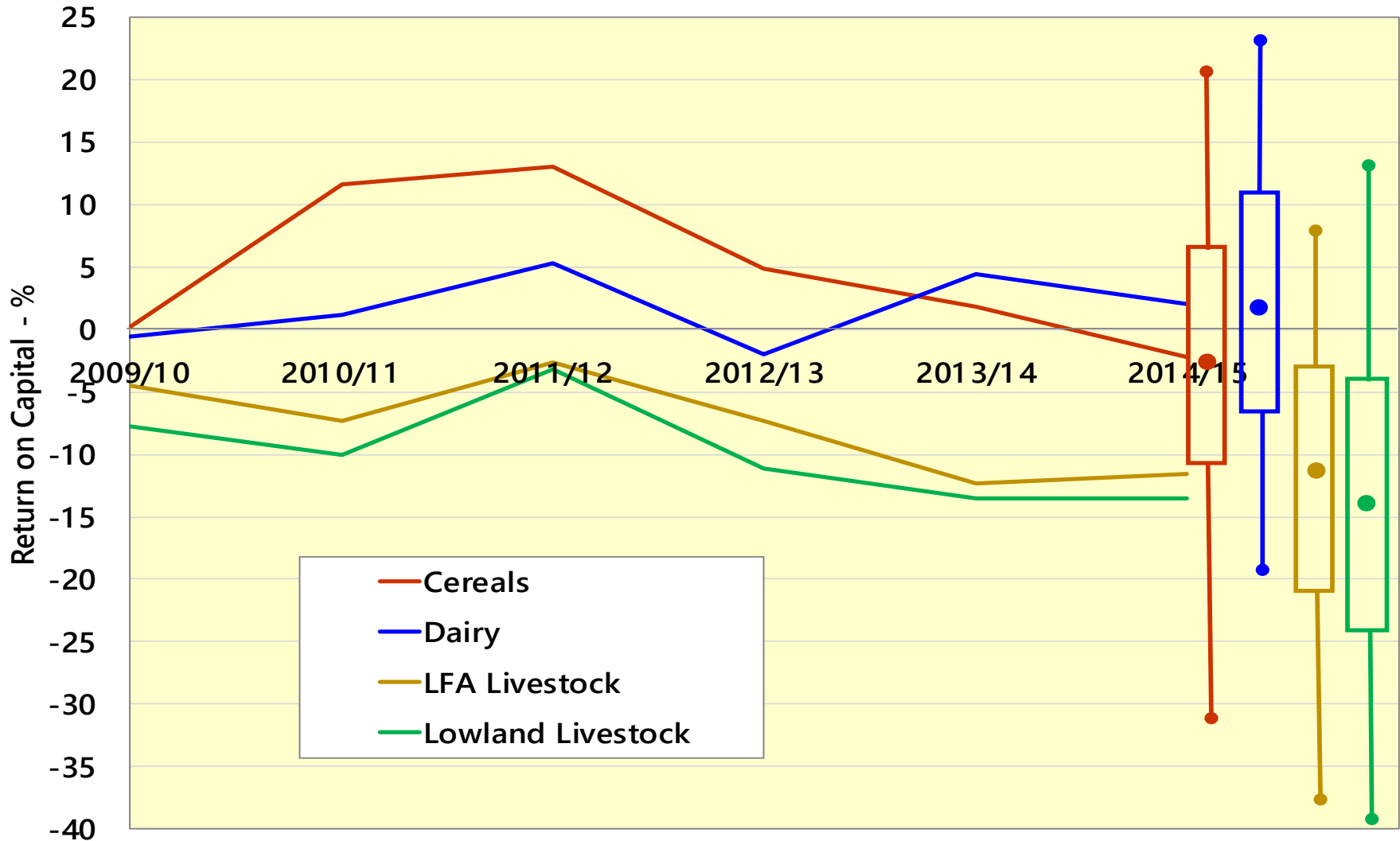
RETURN ON CAPITAL

RETURN ON CAPITAL

- *The* key measure of business success
- How to calculate
 - tenants capital or everything?
- What do you require?

RETURN ON CAPITAL

Average Tenants RoC and Range 2009/10 to 2014/15





BUSINESS PLANNING AND GOALS

ACTIVITY: GOALS

WHERE DO I WANT TO BE?

Where would you like to be in 10 years time?

1. Personal

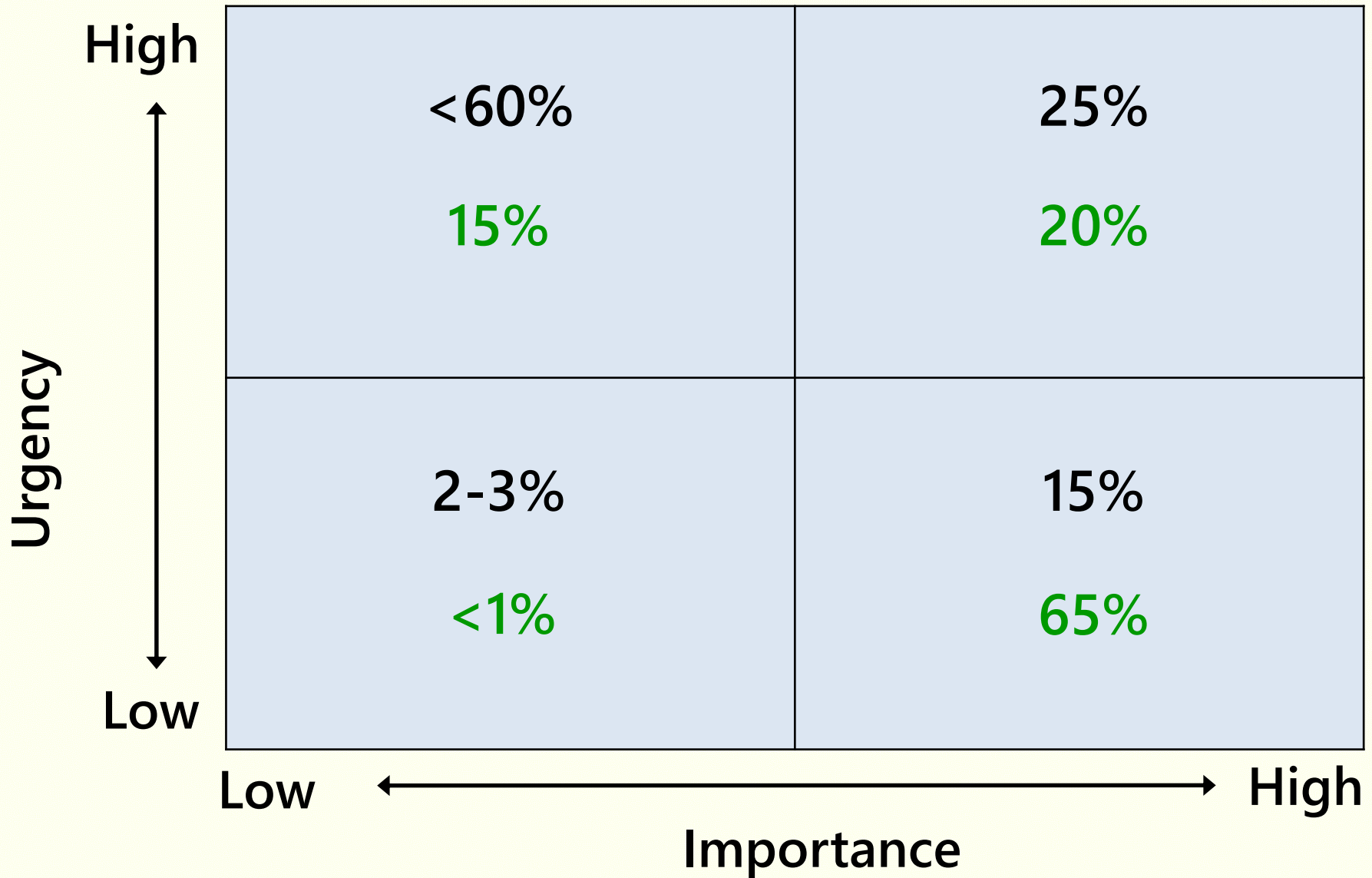
2. Business

3. Financial

BUSINESS PLANNING

- **A few clear goals are all that any organisation needs**
 - avoid complicated and extensive 'wish lists'
- **It is better to keep your eyes on your goals rather than on your competition**
- **Goals should be realistic**
 - they need to be 'stretching', but not impossible
- **Break the journey down into small steps**
 - how do we get there from here?
 - turn those small steps into the budget

IMPORTANT OR URGENT?

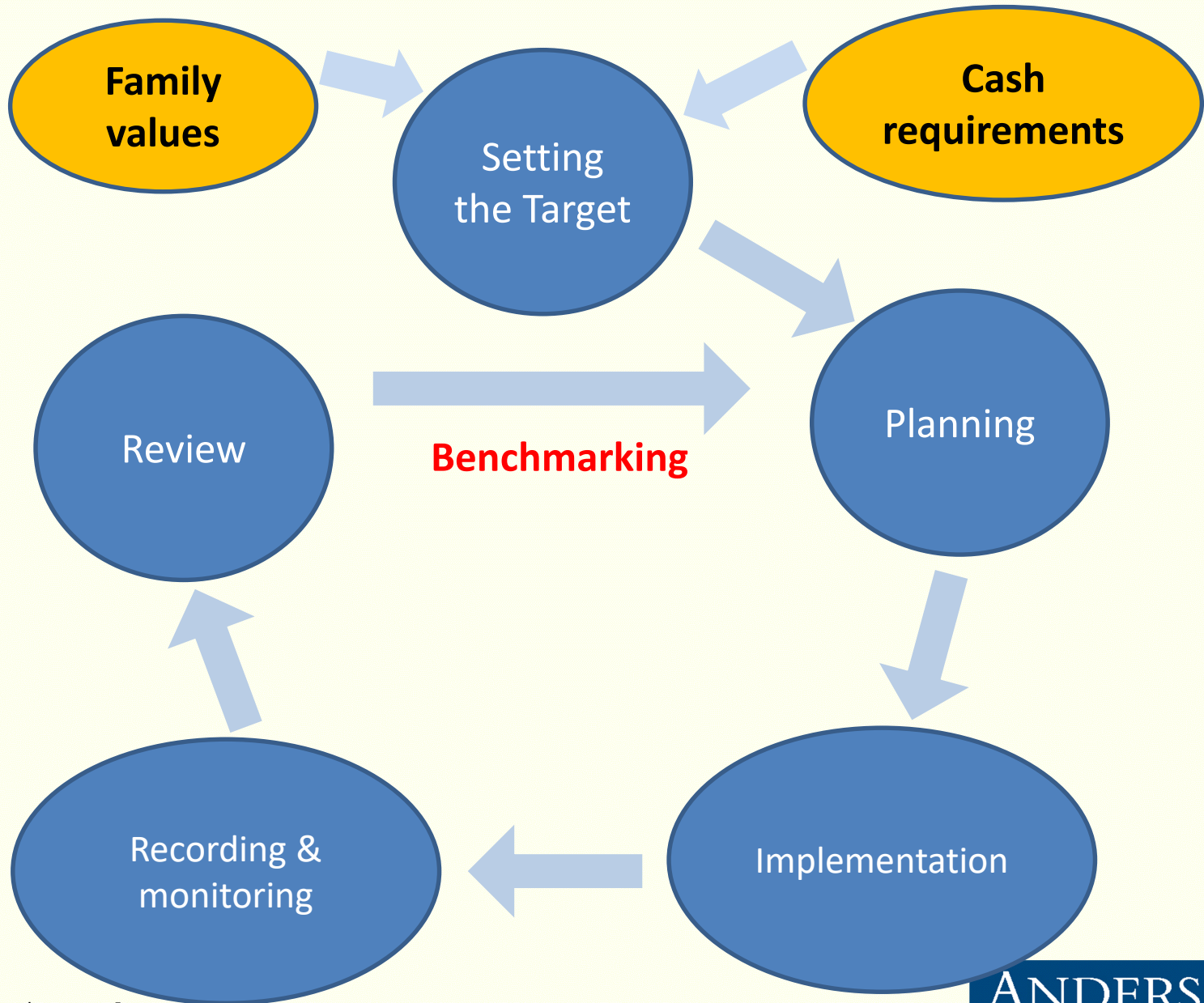


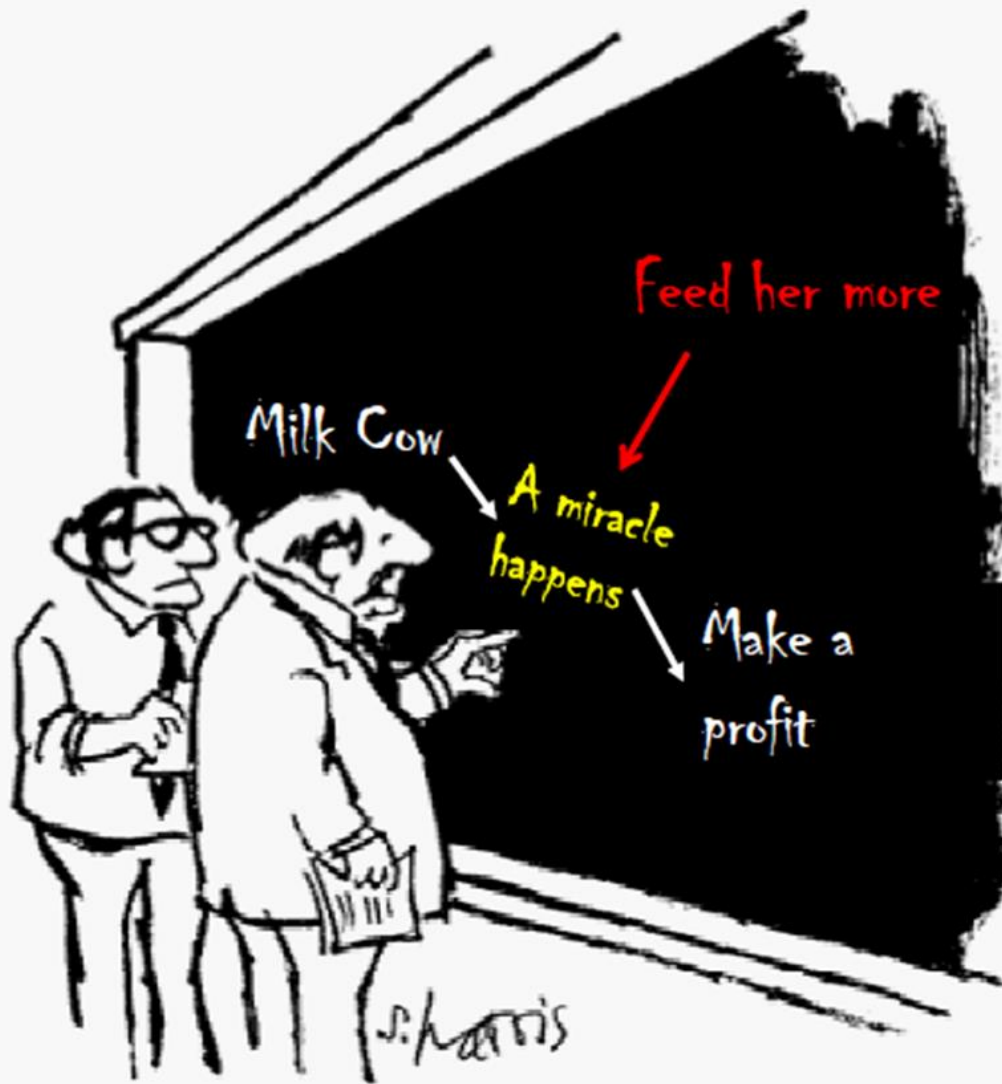
BUDGETING

FROM BENCHMARKING TO BUDGETING

- Use benchmarking figures to draw up a budget
- Identify costs that could be decreased
- Understand how you can decrease them
- Set a realistic target for relevant costs
- Draw up an annual budget for 2016/17
- Monitor performance regularly to keep to the budget

CYCLE OF BUSINESS MANAGEMENT





"I think you should be more explicit here in step two."

HOW DOES IT STACK UP?

Profit target should be set first, then Costs need to be managed to achieve the profit we need.

$$\del{\text{Profit} = \text{Income} - \text{Costs}}$$

$$\text{Costs} = \text{Income} - \text{Profit}$$

$$\text{Profit} = \text{Drawings} + \text{Tax} + \text{Loan repayments} + \text{Rent}$$

WHAT PEOPLE FOUND

- Benchmarking identified strengths, weaknesses and areas where performance could be improved
- Knowledge exchange
- Helped to identify the right business strategy
- Cost control across the board, profit was down to managing costs
- Feed cost and strategy have a huge impact on profit
- The importance of taking a step back from day to day work to manage the business
- Need to plan, budget and use Key Performance Indicators (KPIs)
- Get better before getting bigger!

FUTURE ACTIONS

WHAT'S STOPPING YOU?

List any factors that you think may prevent you adopting some of the things discussed today

What can we do to help you achieve the objectives you have set out?

WHAT AM I GOING TO DO DIFFERENT?

Take 5 minutes to write down what you are going to change (if anything) in your business in . . .

1. Today
2. The next week
3. The next month
4. The next year

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