

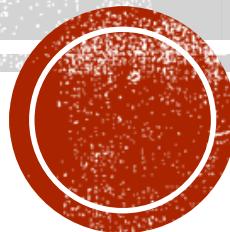
BASIC FARM ACCOUNTING

Presented by: Peggy Hall, Legacy Accounting and Software Training

Sponsored by:

KCAA (Kitsap Community and Agricultural Alliance)

WSU Regional Small Farms Program



AGENDA

- Introductions
- The Workshop
 - Why bother tracking Income and Expenses?
 - The Financial Statements:
 - Income Statement
 - Statement of Cash Flows
 - Balance Sheet
 - Basic Accounting Concepts
 - The Accounting Equation
 - Cash vs. Accrual Accounting
 - Current vs Long Term
 - Expenses vs Capital transactions
 - Developing a Bookkeeping System - spreadsheets vs. an accounting program
 - Pricing, Budgeting, and Forecasting for Profitability
 - Q & A and Survey



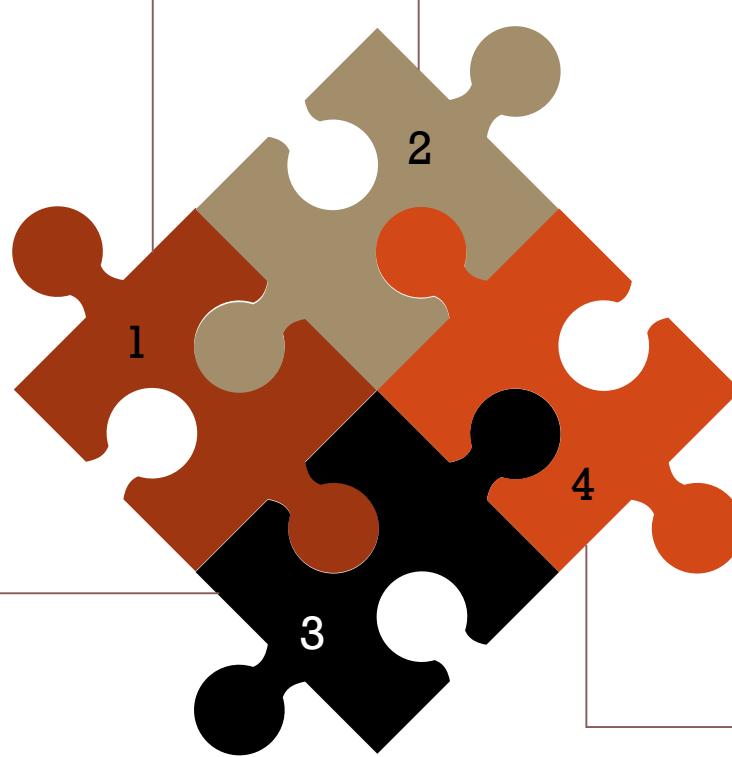
WHY BOTHER TRACKING INCOME AND EXPENSES?

- Know how profitable your business has been
- Aid in securing business loans and grants
- Avoid cash crisis
- Makes preparing tax returns so much easier
- Aid in achieving financial goals



KEYS FOR BECOMING FINANCIALLY SUSTAINABLE

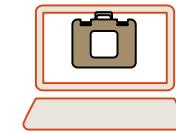
Understand
Basic
Accounting



Track and
Measure your
progress



Develop a
system to track
your expenses



Plan for growth and
profit

INCOME STATEMENT – SUMMARIZES OPERATING REVENUE AND EXPENSES

Revenue

- Net Sales

COGS

- Seeds/Seedling
- Produce or other products for Resale

Operating Expenses

- Direct Operating
- Labor
- Occupancy
- G&A
- Repairs and Maintenance
- Income Taxes

Operating Income = Revenue – Expenses

Other Income & Expense

Net Income = Operating Income + Other Income/Expenses



STATEMENT OF CASH FLOWS

Cash Flow from Operations

Inflow – Sale Revenue

Outflow – Operating Expenses

Net Income \neq Cash Flow

Cash Flow from Investments

Inflows – Sale of Equipment, Land or other Assets (ELA)

Outflow – Purchase of ELA

Cash Flow from Financing

Inflows – Cash received from loans, grants or investors

Outflow – Repayment of loans



THE BALANCE SHEET (ACCOUNTING) EQUATION

Assets = Liabilities + Owner's Equity (Capital)

Assets – Liabilities = Owner's Equity (Capital)

“have” - “owe” = “what you are worth”

Assets – something that you own – Cash, Inventory, equipment, land, buildings, vehicles, livestock, accounts receivable (AR)

Liabilities – what you owe to others – loans, credit cards, accounts payable (AP)

Owner's Equity (Capital) – your ownership in the business, past years retained earning, owner contributions/capital, investor capital



EXPANDED ACCOUNTING EQUATION

Debit normal balance

Credit normal balance

Left side

Right Side

Assets = Liabilities + Owner's Equity (Capital)

Assets = Liabilities + Net Income (Income – Expenses) + Capital

Assets = Liabilities + (Income – Expenses) + Capital

Assets + Expenses = Liabilities + Income + Capital

A – Assets

L - Liabilities

I – Income

C - Capital

E – Expenses`



CURRENT VS LONG TERM

- Assets
 - Current – highly liquid, can be converted to cash quickly
 - Fixed Assets – equipment, vehicles, land
- Liabilities
 - Current – short term, up to 1 year
 - Accounts payable
 - Short term loans
 - Long Term –over 1 year
 - Loans
 - Credit Cards



CASH VS. ACCRUAL ACCOUNTING

- Cash Basis – revenue and expenses are recorded when cash is received or expenses is paid
 - No AP/AR
 - If you sell CSA shares, all money is received and recorded early in the year, but expenses related to the income are incurred later
- Accrual Basis
 - Record revenue when earned and expenses when incurred
 - Better matches expenses with revenues (Matching Principle)



OPERATING EXPENSES VS. CAPITAL INVESTMENTS

- Operating Expenses – Short lived, inexpensive improvements
 - Hand tools
 - Animal feed
 - Fixing fences
- Capital Expenses – Long lived, life extending improvements, possibly depreciated (expensed a little every year)
 - Greenhouses
 - Breeding stock



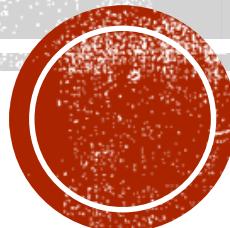
FIXED COST VS. VARIABLE COSTS

- Fixed Costs - Periodic charges do not vary
 - Insurance
 - Rent
 - Bank Fees
- Variable Costs – Expenses vary with production
 - Seeds/Seedlings
 - Animal Feed
 - Labor/Payroll



DEVELOPING A SYSTEM

See additional hanout



PRICING TO DETERMINE CROP PROFITABILITY

Cost of getting crops in the ground (by Acre)

- Seeds
- Seedlings
- Fertilizer/Amendments
- Stakes
- Labor – transplanting/planting/weeding



Getting the Crop to the Market (by case/pound)

- Packaging
- Labor – harvesting/packing
- Distribution



TOMATOES

Measurements

- Acreage Planted: 1 acre
- Yield: 34 cases = 25 lbs each per week
- Harvesting Season: 8 weeks

Conversions:

1 acre = 272 cases = 6,800 pounds



FIELD COSTS – SEASONAL/BY THE ACRE

Labor -

- Starting seed - \$20
- Watering - \$20
- Transplanting - \$60
- Staking - \$40
- Weeding - \$40

Potting Soil/Trays - \$100

Seeds - \$60

Black Plastic/Amendments - \$50

Total Cost per Acre: \$3.90

Cost per case: \$1.43



FIELD COSTS – BY THE CASE/POUND

Labor (\$12 per hour)

- Harvesting – 15 minutes per case
- Sorting/Packaging – 10 minutes per case
- \$5 per case

Supplies

- Packaging - \$.60/case

Total by case cost - \$5.60



PRICING STRATEGY

- Add all costs of production: per acres costs + per case/pound cost = base price
 - By Acre Cost - \$1.43
 - By Case Cost - \$5.60
 - Total base price = \$7.03
- Do market research, compare your base price with competitors (other farmers markets, grocery store etc)
- Set yourself apart by showing your added value (i.e., organic certification)



DISTRIBUTION COSTS

Wholesale

- Calls to customers/place orders – 10 minutes
- Packaging for wholesale,/loading truck – 10 minutes
- Delivery time – 40 minutes
- Fuel - \$5
- Truck Expenses - ??

Total cost per delivery/market - \$17 +



FILLING IN THE NUMBERS

Delivery of 1 case (based on \$7.03 per case base price)

Sale Price	\$25.00
Gross Profit	\$17.97 (\$25.00-\$7.03)
Delivery	\$17.00
Profit	\$.97

Delivery of 10 cases

Sale Price	\$250.00
Gross Profit	\$179.70
Delivery	\$17.00
Profit	\$162.70



CREATING A BUDGET (PROJECTIONS)

- Review Previous Year, if this is your first year, use estimates
- Consider Changes for coming year (adding more livestock, growing more crops, expanding into another market)
- Outline
 - Revenue
 - Expenses
 - Capital Purchases
 - Financing
- Check Cash Flow at least monthly
- Adjust as Necessary



TROUBLESHOOTING PROFITABILITY & FORECASTING

- Revenue
 - Is it going up or down?
- COGS
 - Are you marking up resale items enough?
- Operating Expenses
 - What are the major expenses?
- Operating Profit
 - Is it positive?
- Other Income & Expenses
 - Are they driving losses?



THE END

